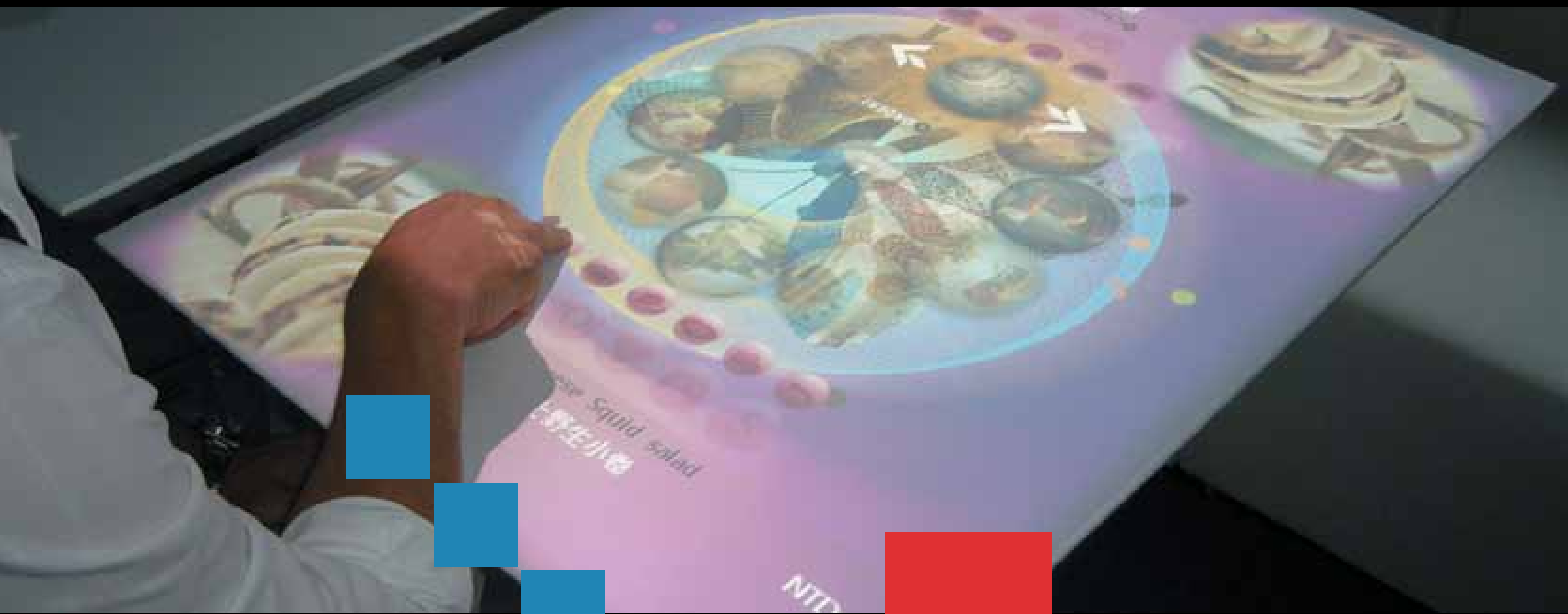
ZYTRONIC



In TOUCH with global markets

Zytronic plc Annual Report and Financial Statements 2011

Zytronic is the developer and manufacturer of a unique range of internationally award-winning touch sensor products based on patent-protected projected capacitive technology (PCT™).

Zytronic's products incorporate an embedded array of metallic micro-sensing electrodes which offer significant durability, environmental stability and optical enhancement benefits to designers of system-integrated interactive displays for public access and industrial type applications.

Zytronic operates from a single site outside Newcastle-upon-Tyne in the United Kingdom, comprising three modern factories and environmentally controlled clean room suites, where it manufactures its range of PCT touch assemblies using specialist glass and plastic materials.

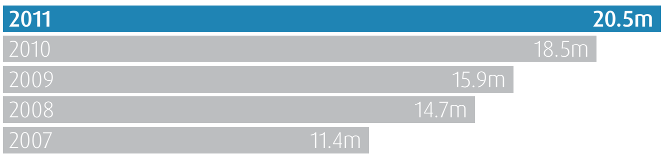
Scan the QR code with your smartphone to find out more about Zytronic or alternatively go to www.zytronic.co.uk

Highlights

> Group revenue increased by 11% to £20.5m (2010: £18.5m)
> Touch product sales increased by 38% to £14.2m (2010: £10.3m)
> Touch revenue now accounts for 70% of Group revenue (2010: 56%)
> Profit before tax increased by 22% to £3.6m (2010: £2.9m)
> EPS increased by 23% to 18.3p (2010: 14.9p)
> Final dividend proposed of 5.6p (2010: 5.0p) – total for year increased by 10% to 7.7p (2010: 7.0p)
> Net cash generated from operations of £4.5m (2010: £3.8m)
> Group now ungeared (2010 gearing: 11%); positive cash balances less borrowings

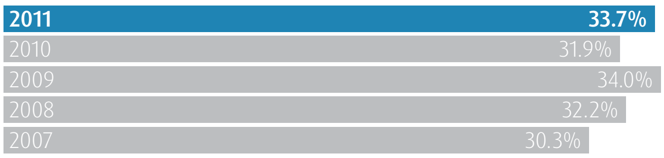
Sales revenue (£'m)

£20.5m +11%



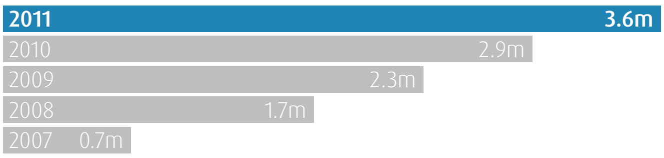
Gross profit margin (%)

33.7%



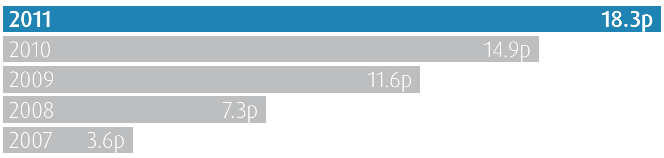
Profit from continuing operations ("PBT") (£'m)

£3.6m +22%



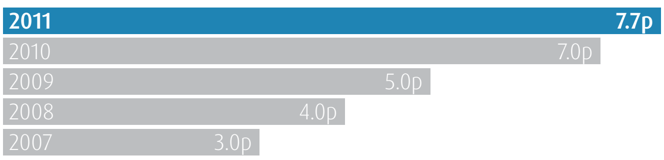
Earnings per share (pence)

18.3p +23%



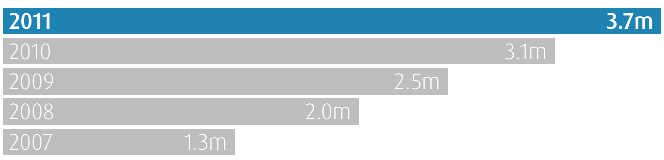
Dividends (pence)

7.7p +10%



Cashflow from operating activities (£'m)

£3.7m +16%



Delivering innovative touch technology to a global client base

Our touch technology

Over the last eleven years we have developed our patented PCT touch technology into a family of product offerings for use in a wide range of applications.

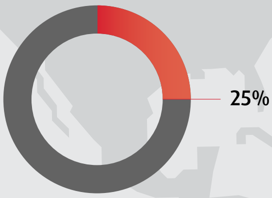
Touch sensors

PCT is unique to Zytronic and offers significant benefits to traditional users of resistive, capacitive and Surface Acoustic Wave ("SAW") technologies. Unlike other touch technologies, the active component of Zytronic's technology is embedded behind the glass front for protection, providing a true safety laminated, pure glass fronted construction.

Zytronic's touch sensor technology is also readily scalable in size, allowing customers to use sensors ranging in size from 6 inches to 82 inches. Additional customisation can be provided, including printed borders, logos, etc.; non-rectangular shapes; shaped polished edges; and different glass substrate thicknesses from 1mm to 12mm.

A strong global network to leverage business growth

With the expansion of our customer base, distribution and representation networks over recent years, we are well positioned as a global supplier to continue to strengthen and grow the business.



Americas sales and growth:

£5.1m +37%

Americas

Sales in North and South America showed very strong growth across a number of applications. In particular we saw strong growth from the continuation of the roll-out of The Coca-Cola Company® Freestyle™ drinks dispenser. There was also strong growth in sales of touch sensors in the ATM market in North America in FY2011.

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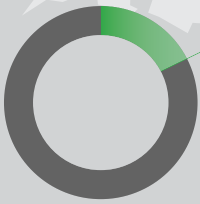
UK sales and growth:

£1.7m –1%

United Kingdom

Invoiced sales within the UK have continued to decrease as UK manufacturers "export" their manufacturing overseas and the UK economy suffers from the impact of the economic recession.



APAC sales and growth:

£3.7m –19%

APAC

Revenue in the APAC region decreased from £4.5m to £3.7m reflecting very different performances in individual countries. There was a very significant reduction in sales to India and a reasonable reduction in China (both related to ATMs), but sales increased strongly in Japan, Korea and Taiwan and reasonably well in Australia.

Cover photograph

The front cover photograph shows an interactive dining table in use in the exclusive Mojo restaurant in Taipei. The 22 inch ZYBRID® touch sensor has been used by Samsung Technology to create a new, entertaining, interactive experience for diners.

EMEA sales and growth:

£10.0m +18%

EMEA (excluding UK)

The EMEA region, by sales value, continues to represent the largest market for Zytronic products and continues to exhibit good growth. This year's sales growth benefited from the launch of BSH's Gaggenau-branded cooktop in January 2011. So, as well as home automation applications, direct product sales to EMEA countries are represented by a broad range of application uses, such as ATMs, information kiosks, self-service and vending.

Learn more:

Read on to find out more about four major application markets in which our touch sensor technology is increasingly applied.

Chairman's statement

We have been encouraged by the progress that we have made during the past financial year in our touch product sales and are also pleased with levels of current trading and the increasing market acceptance of our touch products that should enable further progress in creating shareholder value.

In summary

> Group revenue increased by 11% to £20.5m (2010: £18.5m)

> Touch product sales increased by 38% to £14.2m (2010: £10.3m)

> Gross profit margin recovered to 33.7% (2010: 31.9%)

> Profit before tax increased by 22% to £3.6m (2010: £2.9m)

> EPS increased by 23% to 18.3p (2010: 14.9p)

> Final dividend proposed of 5.6p (2010: 5.0p); total for year increased by 10% to 7.7p (2010: 7.0p)

I am pleased to report on the results for the year ended 30 September 2011, which show a continuation of the positive progress made over the last few years in line with our stated strategy to roll out the Group's unique projected capacitive touch sensor products on a worldwide basis.

Results

Revenues have increased by 11% to £20.5m (2010: £18.5m); operating profits increased by 21% to £3.7m (2010: £3.0m); profit before taxation increased by 22% to £3.6m (2010: £2.9m); and, after taxation of 24%, resulted in profits after taxation of £2.7m (2010: £2.2m) and an increase in earnings per share of 23% to 18.3p (2010: 14.8p).

Strategy

The continuing growth and improvement in profitability is a result of pursuing a strategy of concentrating on the further development of worldwide markets for our touch sensor products and diversifying away from our traditional lower growth standard laminate products. Touch sensor products account for 70% of revenues this year.

Touch sensors

Revenues from our touch sensor products have risen 38% to £14.2m (2010: £10.3m) reflecting the growth in applications for our products across a number of market sectors and across several geographic regions.

Our products continue to be principally suitable for applications involving more rugged environments including outdoor applications such as ATMs, self-service and vending, automation and ticketing.

More importantly, our products are being adopted increasingly for use in the emerging high public usage applications of self-service and vending, gaming and entertainment, digital signage, industrial automation and home automation, where our more durable touch solution has added environmental performance benefits over those used in the wider consumer electronic markets.

Cash generation

The Group continues to generate significant cash from operations and has generated £4.5m (2010: £3.8m) before an investment of £0.8m in plant and machinery and research and development; and after debt service costs of £0.5m and taxation of £0.8m, the overall cash position improved by £2.4m from which a dividend of £1.0m was paid.

The position as at 30 September 2011 was cash and short term deposits of £4.5m and a current net financial asset position of £2.2m. The Group also has non-current financial liabilities represented by two mortgages secured on the Group's freehold properties and payable over the next eight years, of £1.7m.

Dividend

The Board proposes a final dividend of 5.6p (2010: 5.0p) which, together with the interim dividend of 2.1p (2010: 2.0p), results in a full year dividend of 7.7p (2010: 7.0p) being an increase of 10%.

Outlook

We have been encouraged by the progress that we have made during the past financial year in our touch product sales and are also pleased with levels of current trading and the increasing market acceptance of our touch products that should enable further progress in creating shareholder value.

Tudor Davies B.Sc
Non-executive Chairman
14 December 2011

Touch sensors

The Coca-Cola Company® Freestyle™ beverage dispenser

Coca-Cola has continued the roll-out of its proprietary Freestyle™ beverage dispenser and Zytronic has manufactured increasing volumes in FY2011.

The 15.1 inch ZYBRID touch sensor is mounted behind a moulded polycarbonate full-front facia that can easily be wiped clean. Uniquely, ZYBRID sensors are able to work through this overlying material facilitating a design without the need for a display bezel which is both stylish and hygienic.

By touching the sensor, the customer or restaurant employee is able to select a drink from over 125 different beverage combinations, simply by touch.

p7-13
For more information about our touch sensors view our case studies on pages 7, 9, 11 and 13.

Business review

Our clear focus on R&D developments, the continuing growth of our touch sensors sales across an expanding number of geographic regions and applications and the current healthy inflow of orders provides a good platform for continuing growth of Zytronic in FY2012.

In summary

> Record orders placed in year of £21.5m (2010: £19.8m)

> Orders for touch products increased substantially by 41% to £15.8m (2010: £11.2m)

> Export sales now represent 92% of Group sales (2010: 90%)

> Touch products sales increased by 38% to £14.2m (2010: £10.3m)

> Profit before tax increased by 22% to £3.6m (2010: £2.9m)

> Net cash outflow from operations of £4.5m (2010: £3.8m)

> Group now ungeared (2010 gearing: 11%); positive cash balances less borrowings

The following review provides information on the sales, profitability, research and development and operational activities of the business during FY2011.

Strategy for sales growth

Our strategy for continued sales growth in our touch products is underpinned by the strength of our global sales channel network of representatives and value added resellers. As part of this process, we have continued our work with UK Trade & Investment ("UKTI") to evaluate new export markets and opportunities during the year. We have commissioned further Overseas Market Introduction Service ("OMIS") reports for several regions within China and for Thailand during 2011 to identify "partners" and made visits to those countries.

In October 2010, we further increased our direct sales team by recruiting a Regional Sales Manager for the APAC region. As well as driving sales in our existing territories, he is also challenged with growing the sales channel network in countries where we are presently not represented, including Thailand, Vietnam and Indonesia.

The Group has global sales channel agreements covering 39 countries and this spread of agreements and countries contributes increasingly to our significant level of export sales of 92%.

Orders taken in the year

Orders placed during the fiscal year were £21.5m, showing an 8% net increase against the comparative period last year (2010: £19.9m).

However, this overall net increase does not adequately demonstrate the underlying performance of touch sales as management continues its drive to exploit its PCT touch technology into appropriate application areas globally. The level of orders for touch products has increased substantially by 41% to £15.8m from £11.2m.

Conversely, orders placed for non-touch products have reduced, as expected and as anticipated during the 2010 preliminary results and re-affirmed in the 2011 interims. The total order intake for these products reduced by 34% to £5.7m (2010: £8.7m), reverting to a more normal historical level for such products.

2011 performance

The key influencing factors on the reported 2011 performance include:

Touch products

> Touch product export sales achieved a record high of 94% (2010: 93%), the split being 17% into the APAC region, 33% into the Americas and 44% into the combined EMEA region.

> Total touch units sold increased by around 65% to 121,000 units. This has been driven by a substantial 123% increase in units sold through our global network of value added resellers, which accounted for 52% of all of the units sold (2010: 39%).

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Self-service and vending

Our touch sensors are increasingly adopted in self-service and vending applications. As already highlighted on page 5, a 15.1 inch ZYBRID touch sensor is used in The Coca-Cola Company® Freestyle™ beverage dispenser. Two other examples are shown below where different sizes and types of sensor have been used as the customer interface in bicycle rental systems in London and France and elsewhere abroad. Increasing opportunities are being seen in vending machine systems including a Blockbuster-branded DVD rental system for NCR and new vending machines developed by several Japanese manufacturers.

JC Decaux gets French cities moving

JC Decaux has used a 10.4 inch ZYTOUCH® touch sensor in some of its cyclocity urban bike hire schemes. JC Decaux has rolled out several services across France (as shown below on a Lyon street) and abroad.

Boris' BIXI Bikes

The photograph on the left shows a sight that is now very familiar to Londoners and has been strongly endorsed by the mayor, Boris Johnson. The Canadian company, Public Bike System Company, has used a 12.8 inch ZYBRID customised touch sensor with a protective overlay of 6mm thick toughened glass to provide the user interface for its bike rental system. The BIXI is in use also in Australia, the US and Canada.

Business review continued

Some of our milestones

2001
First commercial PCT-based product to market – trade named ZYTOUCH sensor.

2002
ZYTOUCH design wins for ATMs (two of global top three) and BT Webphone.

2005
ZYTOUCH design wins for Petrol Pump applications; North America Sales Rep Network introduced, followed by agreements in EMEA and APAC over next four years.

2006
New design of ZYPOS® touch sensor launched, opening way to new application markets.

2008
New ZYPOS manufacturing facility becomes operational.

2009
Announcement of The Coca-Cola Company® use of ZYPOS sensor in new Freestyle™ beverage dispenser.

2010
ZXY100 Series controllers and chipset solution to market.

2011
Announcement of ZYPOS design win for Bosch Siemen's Gaggenau induction cooktop.

2011 performance continued

Touch products continued

> The application markets, other than our longstanding ATM markets, in which the volume of units sold gained further momentum during 2011, were in self-service and vending, home automation and industrial automation.

1. Self-service and vending was influenced by an increase in deployments for fuel dispensing terminals in the Benelux region and home finance bill payment terminals in the former CIS territories, as well as an increasing level of unit sales to The Coca-Cola Company® for its Freestyle™ drinks fountain.
2. Home automation sales were significantly driven by the January 2011 launch of the Bosch und Siemens Hausgeräte GmbH ("BSH") new induction cooktop under its premium Gaggenau brand.
3. Sales to customers in our industrial automation markets exhibited increases in several ruggedised and durable kiosk and control system applications.

> We also experienced a 20% increase in the volume of touch products sold for ATM applications, against the 25,000 units produced in 2010. We have seen substantial increases for these touch products into North America of 70% and Europe of 47% driven by the increasing deployments of a new breed of more sophisticated transactional ATM which meets customers' increased functionality requirements. However, in Asia we observed a 36% reduction, as our global ATM customers face increasing competition in that region from the well-established local suppliers.

> Gaming is showing a relatively level performance to that of 2010, as there has been little movement in the unregulated fixed odds betting terminal applications ("FOBTs"), although continuing strides are being made by us in the regulated casino based gaming arena, especially in North America.

Non-touch products

> Continued customer-led cost reduction drives, within our ATM markets for the non-touch optical display filters, resulted in us implementing further design simplifications, to enable us to continue to manufacture these products profitably while meeting the customers' needs. Looking forward, we expect that over time this product line, which is in a more competitive and lower margin sector than our touch sensor products, will become an increasingly small part of the overall business. This is a natural consequence of the successful development of Zytronic's touch-focused strategy.

Financial review

a) Revenue growth was consistent throughout the year with an 11% increase during H1 (£9.1m compared to £8.2m in 2010 H1), followed by an increase of 10% in H2 (£11.4m compared to £10.3m in 2010 H2). Total revenue growth for the full year was 11% to £20.5m (2010: £18.5m).

b) Touch product growth was 38% (£14.2m compared to £10.3m). However, the total touch growth masked a more significant uplift in H2. Touch product revenue increased 29% in H1 (£6.0m compared to £4.6m in 2010 H1), followed by a much more substantial increase of 47% in H2 (£8.2m compared to £5.6m in 2010 H2). Touch product revenue accounted for 70% of total Group revenue in 2011, compared with 56% in the prior year.

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Digital signage

A unique feature of Zytronic's PCT sensor technology is its ready scalability from sensor sizes of 6 inches to 82 inches. These larger sized touch sensors are enabling designers to look at new applications in providing interactive information and entertainment to users. In particular, large sizes over 40 inches are increasingly being used in "retail" situations, in shops and shopping malls and outdoors to provide 24/7 information to users. The two examples below show exciting applications.

Yeahpoint and SingTel

Sydney-based Yeahpoint has used Zytronic's ZYBRID PCT touch sensor technology in its interactive project on behalf of SE Asian telecom operator SingTel. In a major update to its chain of retail outlets, SingTel will provide customers with a stunning degree of interaction; allowing customers to browse through information of SingTel's full range of products and services. Yeahpoint has used a range of traditional vertical displays, as in the photograph on the right, as well as developing a number of 42 inch ZYBRID touch-enabled interactive tables.

Infinitus of Slovenia

The photograph on the right shows a 65 inch ZYTOUCH touch sensor supporting the interactive capabilities of iMotion®, an advanced, high-definition outdoor display. The system is created by Infinitus of Slovenia. Crucially important in this application, PCT touch sensors can be sealed to IP67/NEMA4 levels to prevent ingress of moisture or particles.

As the volume of touch products continues to increase and the mix of sensor type and size changes, **we added additional production equipment during FY2011** to further improve the manufacturing flow and efficiencies.

2011 performance continued

Financial review continued

c) Profit before tax also increased more strongly in H2, fuelled by the increasing mix towards touch product sales. There was a 19% increase in H1, at £1.3m (2010 H1: £1.1m), but H2 increased more significantly by 25% to £2.3m (2010 H2: £1.8m). The total increase for the full year was 22% to £3.6m (2009: £2.9m).

d) Our gross profit margin recovered much of the ground lost in FY2010, increasing to 33.7% (FY2010: 31.9%; FY2009: 34.0%).

e) Earnings per share increased significantly by 23% from 14.8p to 18.3p. The increase arises from both the increase of 22% in the profit before tax of the Group, as outlined above, and also from the benefit of a reduction in the effective taxation rate for the year. With the reduction of the standard rate of corporation tax from 28% to 26% from 1 April 2011, and the further reduction to 25% from 1 April 2012, the corporation tax charge and deferred tax charges are both lower than in the prior year and the effective tax rate for the year is 24% (25%).

f) In 2006 and 2007 the Group borrowed £2.3m to fund the purchase of the freehold of our ZYPOS manufacturing facility and the fitting out and equipping of it, together with £2.2m for the purchase in 2009 for £3.4m of the freeholds of our two leased factories, resulting in gearing reaching a peak at an unaudited maximum of 41% in June 2009. Since then, with strengthening cash generation and regular repayments of the debt, we are delighted to see net cash balances once again exceed outstanding debt, so that gearing has now reduced below zero (to -4.0%). Net cashflow from operating activities has increased again, from £3.2m to £3.7m. Net cash balances at 30 September 2011 were £2.6m and the remaining balances on the two ten-year mortgages (of which 4 and 8 years remain) have reduced to £2.1m.

Much of the recovery is due to the absence of the features which affected FY2010's margin, and, in particular, to the increasing proportion of touch products within total revenues.

Foreign exchange

With increasing levels of exports, and the switch by one of our larger customers from trading in Sterling to being invoiced in Euros, our exposure to foreign currencies increased in FY2011. We continue to rely on natural hedging as our main method of minimising FX risk, but we used forward exchange contracts in the last quarter to assist. Looking ahead to FY2012, we have already taken out monthly forward exchange contracts for both US Dollars and Euros, which we consider will protect a large proportion of the budgeted FX income not used to pay for purchases of raw materials in those currencies.

Production

Production management was strengthened in January 2011 with the recruitment of a Production Manager specifically for touch sensor products, to work under the former group Production Manager who was promoted to Production Director. The incumbent Production Director has taken on a new role as Operations Director.

Management has continued to make significant strides in operational efficiencies during FY2011, especially as the volume of the manufacturing output of our touch products continued to increase significantly quarter by quarter during the year. The weekly paid productive headcount was increased from an average of 146 persons during Q1 to 160 persons during Q4 to cope with the increasing sales levels.

The Electronic, Industrial, Material and Mechanical Engineers within the Development Team in our production department have continued to evaluate new process improvements and alternative material solutions throughout the year, as a means of offering and meeting internal and customer-specific cost reduction programmes and to continue generating efficiency improvements.

As the volume of touch products continues to increase and the mix of sensor type and size changes, we added additional production equipment during FY2011 to further improve the manufacturing flow and efficiencies. Two new automatic laminating machines were brought into service, a large 65" panel sized laminator in December 2010, to accommodate the increasing ultra large format products, and a second, more efficient but smaller 32" panel sized laminator in January 2011. These were the two most significant items of capital expenditure on plant and machinery during the year, together costing £295,000 from a total spend of £534,000.

As part of our annual impairment review, we also considered our future manufacturing needs given the increasing move towards our ZYPOS style manufacturing processes. This year, we decided that it was appropriate to impair the carrying value of specific equipment by £131,000. The major item was a Klopper hot roller laminating machine, against which the impairment was £74,000. It is used much less and we are trying to find a buyer for it. We have also written down, to Nil value, a TEC conveyor system (£37,000) and our two (of four) oldest autoclaves (£16,000).

In October 2011, following our reviews on future space requirements, we began a refurbishment and expansion programme of the original 1990s clean room facilities in the main factory. This will provide a doubling of the productive clean room floor area in that facility for touch product manufacture. It is anticipated that this increased facility will be operational by January 2012.

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Industrial automation

Zytronic's PCT touch sensors are able to cope with the harshest of environments making them very at home in hard industrial applications. With the ability to operate them with a gloved or ungloved hand, the sensors can withstand very high and low temperatures, high humidity and can be fully waterproofed. The two examples below give an indication of their use in very different situations.

Advantech of Taiwan

Taiwan's leading embedded computing manufacturer, Advantech, uses a ZYPOS sensor in the 17 inch ruggedised panel PC, shown below. It is designed for use in the harshest industrial environments, from 0°C through to 50°C, in humidity levels of 85% and is capable of withstanding up to 10G of shock.

FM Scanu and BHP Billiton

FM Scanu, a leading Australian kiosk manufacturer, has chosen Zytronic's PCT technology for the 17 inch ZYPOS touch sensor used in its kiosk for the mining giant BHP Billiton (see photograph on left).

The system will be used by BHP to supply occupational health and safety information in a busy mine environment, where it will be constantly exposed to coal dust, grit, moisture and heavy use. It also needs to work when touched by gloved or dirty hands, playing to the strengths of PCT technology.

Business review continued

Protecting our environment

For many years, we have recycled wood and glass waste from our manufacturing processes. As pressure increases on businesses to become ever more environmentally aware, we have extended our approach to environmental matters where practical, seeking to recycle more items and become more energy efficient.

To formalise our approach we are currently applying for the British Standard on environmental matters and expect to achieve the standard, ISO14001:2004, during 2012.

Management and information systems

We continue to invest in the underlying computer systems of Zytronic for the better management of our complex manufacturing processes and the continued improvement of management information. To underline the importance of this continuing development, in March 2011 we promoted our Management Accounts Controller to the newly created position of Director of Management Information and Systems. We also recruited a further IT technician to join our IT team.

Promoting our R&D efforts

During 2011, the R&D team has continued to drive forward the underlying technology behind Zytronic's touch products, to satisfy both customer expectations and service requirements. We capitalised some £224,000 of R&D spend and expensed £308,000 to the consolidated income statement.

In August 2011 we strengthened the R&D team with the recruitment of a Software Engineer, to further develop the software support for our range of touch products, and a Mechanical Engineer to foster better customer interaction with regards to product integration. A new Electronic Engineer is also due to join us soon.

Work has continued on further refinements of the Zytronic bespoke firmware provided in the ARM® core processor and the ASIC (Application Specific Integrated Circuit) chip solution which were launched in mid-2010. Several programmes have moved into production where a chipset solution has been favoured by the customer and is used as an alternative to our standard controller board.

The development of the operating system touch driver software, which was initiated at the beginning of the fiscal year, is now nearing completion. A Zytronic developed source code for Win CE platforms has been tested and approved, whilst a more universal open source Linux platform driver is now nearing sign off. Further development work is presently being undertaken in preparation for the release of the forthcoming Windows 8 operating system. We capitalised some £102,000 on this project during the year, and expect to capitalise a further £90,000 in FY2012, to complete the project.

In the second half of the fiscal year, the R&D team initiated a new project to develop and evaluate new multi-touch interactive projected capacitive solutions for large to ultra-large format sized systems. Although very much still at an early stage of development, the team has successfully used multiple wire electrode arrays to provide simultaneous ten touch point activations.

In June 2011, at the Society of Information Display Expo in Los Angeles, we introduced our new transparent metallic oxide thin-film touch solution as an alternative to our standard wire-based products. This solution had been specifically developed for small sized, very large volume applications and is being actively evaluated by several potential customers.

Work is also continuing to evaluate other possible sensing media, such as printable silver or copper nano-particulates, as a further alternative to our standard wire-based electrodes.

Our clear focus on R&D developments, the continuing growth of our touch sensor sales across an expanding number of geographic regions and applications and the current healthy inflow of orders, provides a good platform for continuing growth of Zytronic in FY2012.

Finally, on behalf of the Group's management, we would like to take this opportunity to thank all employees for their contribution to the successful outcome of this fiscal year.

Mark Cambridge B.Sc
Chief Executive Officer

Denis Mullan B.Sc, FCA
Finance Director
14 December 2011

Scan the QR code with your smartphone to find out more about ZYTOUCH or alternatively go to www.zytronic.co.uk/products

Home automation

The use of touch sensors in the home environment is increasing rapidly. We show below two examples of such uses, but others include their use in shower controls (resistance to water); behind mirrored surfaces in vanity units and fridge doors, to control lighting, heating and music systems etc.; and in high-end audio systems.

The IP-Touch System

Switch Automation, an Australian designer, created the IP-Touch interface system, shown below. It is designed for use in access control applications including multi-residential apartments, hotels and businesses.

BSH's flagship induction cooktop

For the development of its latest full surface induction cooktop (the CX480) for its premium Gaggenau brand, Bosch and Siemens Hausgeräte GmbH (BSH) has chosen the 6.5 inch customised ZYBRID sensor.

The hob has an edge-to-edge cooking area, with an array of induction elements mounted beneath a durable glass ceramic surface. The cooktop is operated by an intuitive user interface operated through a touch-enabled TFT display. With the touch sensor embedded below the ceramic surface it is effectively invulnerable to wear and tear.

Board of Directors

Tudor Griffith Davies B.Sc (60)[1]
Non-executive Chairman

Tudor has wide industry experience at boardroom level, as Chairman, Chief Executive and Executive and Non-executive Director of several public companies. These have included Hicking Pentecost plc, Stratagem plc, Dowding & Mills plc and Castle Support Services plc. He was formerly a partner in Arthur Young (a predecessor firm of Ernst & Young LLP) specialising in corporate finance and recovery. Tudor is Chairman of the audit committee.

Mark Cambridge B.Sc (47)
Chief Executive

Mark graduated with a B.Sc (Hons) in Materials Science in 1986 and has a Securities Institute Certificate in Corporate Finance (2003). Joining the Romag Group of companies in 1991, he held the positions of Technical Manager, Quality Manager and Technical and Quality Director, up to the demerger and flotation of Zytronic plc. Since 2000 he has overseen the development, market introduction and sales of the ZYTOUCH touch sensor product and the market launch of ZYPOS touch sensors. Mark was Sales and Marketing Director of Zytronic Displays Limited from 2002 until his appointment as its Managing Director in February 2006. On 1 June 2007 Mark was appointed to the Board and promoted to Chief Executive on 21 January 2008.

Denis Gerald Wilson Mullan B.Sc, FCA (57)
Finance Director

Denis was formerly a partner in Ernst & Young LLP, specialising in corporate finance. He was based successively in its offices in London, Newcastle-upon-Tyne and finally Bristol. While based in Ernst & Young's Newcastle-upon-Tyne office, he led its work on the demerger of Zytronic Displays Limited in June 2000 and the subsequent admission to AIM of Zytronic plc in July 2000. Shortly thereafter he transferred to Ernst & Young's Bristol office, at which time his formal advisory role to the Group ceased. He joined the Group in August 2003.

David John Buffham (52)[1][2]
Independent Non-executive Director

David worked at the Bank of England (the "Bank") for 32 years until mid-2010. He held several roles in the Bank, including working in the Banking Supervision Division for five years following the changes to banking regulations introduced in 1987 and as a Credit Risk Manager. In addition, he advised overseas central banks on the conduct of monetary policy operations. Most recently he was the Bank's Agent for the North East of England for nine years.

Since leaving the Bank, David has been appointed a Non-executive Director of Newcastle Building Society, where he has joined the audit committee. He is also a Governor and audit committee member of Northumbria University and a visiting fellow at Teesside University. Until 2006, he was a Director of The Northumbria Coalition Against Crime.

Sir David Robert Macgowan Chapman Bt., DL, B Comm (70)[1][2]
Senior Independent Non-executive Director

Sir David is a former Director of Northern Rock plc and the London Stock Exchange and a member of the Greenbury Committee on Directors' Remuneration. He is a Director of a number of regional venture capital funds. A former Chairman of CBI – North East and a First Vice President of Merrill Lynch International Bank, Sir David is currently a consultant with UBS Wealth Management (UK) Limited. Sir David is Chairman of the remuneration committee.

(1) Member of audit committee.
(2) Member of remuneration committee.

All of the Directors served throughout the financial year.

Directors' report

The Directors present their annual report and financial statements for the year ended 30 September 2011.

Business review

Details of developments and the progress of the Group are contained within this Directors' report as well as in the Chairman's statement and Business review.

Principal activities

Zytronic is the developer and manufacturer of a unique range of internationally award-winning touch sensor products. Zytronic's products incorporate an embedded array of metallic micro-sensing electrodes which offer significant durability, environmental stability and optical enhancement benefits to designers of system-integrated interactive displays for public access and industrial type applications.

Competitive advantages

The Group's competitive advantages are based upon both the patented technology relating to the operation of the touch sensors and the lamination techniques and processes, built up over 40 years of operations, which are a feature of all the Group's products. These advantages allow the Group to produce products which have optical clarity and ruggedness and can be customised to include individual features for customers, including privacy filters and anti-reflective and anti-glare properties. In the case of touch sensors, these advantages also result in the significant ability for them to be used by bare fingers and gloved hands and result in them not experiencing positional drift and therefore not requiring periodic re-calibration.

The growth of the Group and its future prospects comes from the exploitation of this relatively new touch sensor technology. Differing adaptations of this patented technology have resulted in four different product groups being developed: ZYTOUCH touch sensors and keypads; ZYPOS, and its derivative ZYBRID, touch sensors; ZYSWITCH® touch-switch sensors; and ZYFILM® and ZYPROFILM® plastic-based touch sensors. ZYTOUCH, ZYPOS and ZYBRID touch sensors are designed to work in front of LCDs or other electronic devices where optical clarity is paramount. Conversely, the technology has been adapted to produce ZYTOUCH keypads and ZYSWITCH touch-switch sensors which are not required to be transparent.

The Group's Intellectual Property Rights include confidential operations and processes, technology covered by patents and licensed technology, trademarks and copyrights. Over recent years the Group has taken significant steps to register its trademarks.

The Group will continue to identify further opportunities for the development of new product groups and expends a considerable amount on R&D. By continually developing and adapting its technologies the Group has been able to expand the applications of the touch sensors into a widening range of applications and new sectors of business and to promote the Group's products on a global basis. At present 92% of all products are directly exported from the UK, with a large proportion of UK sales eventually being exported as well.

The Group has continued the expansion of its worldwide selling operations, including expanding its direct sales force, based at the Group's head office at Blaydon-on-Tyne. Management is continuing to look for suitable appointees to expand the Group's presence of Value Added Resellers worldwide.

Business risks

The main risk to the Group's business is that of advances in competing technology, whereby a new, better touch sensor technology is created. Management is conscious of this and monitors competitors' developments and changes within the whole industry. By continually developing and evolving its own technologies, the Group expects to build upon its competitive strengths and thereby keep its technology ahead of its competitors.

Another competitive risk arises from downward price pressures from competing technologies. This is most prevalent in the lower valued touch sensor sector dominated by resistive, capacitive and surface acoustic wave touchscreens. However, price pressure in those markets does have a knock-on effect on prices throughout the industry.

Management has successfully met these challenges to date by re-designing and re-engineering the ZYTOUCH touch sensor in developing the ZYPOS touch sensor. This has enabled the Group to reduce the cost of manufacture and therefore the sales price for ZYPOS touch sensors and is allowing the Group to enter markets that were previously closed to it on price grounds. The Group has also re-designed optical filters to enable it to take advantage of the new manufacturing processes first developed for making ZYPOS touch sensors.

Management is also continually reviewing the sources and costs of raw material supplies, the design of the Group's products and the operational processes that are used in the manufacture of all of the Group's products.

A further risk, which is directly within the control of management, is that of managing increases in the overhead base to coincide with the growth in turnover, thereby maintaining the growth in profitability. This is not straightforward when the business is developing new products and manufacturing processes.

A fourth risk is that, as a growing proportion of the Group's sales are denominated in US Dollars and Euros, the Group is subject to risks associated with currency movements. It is the Group's policy to manage these risks and provide a degree of certainty for cashflows into the UK. Note 21 sets out details of the Group's financial risk management policy and financial instruments, including its management of its foreign exchange risk.

Natural hedging is adopted where possible to manage currency risk, whereby goods and services are sourced from Europe and the USA and the liability arises in the respective currencies. This is especially relevant with specialised glass, some electronic components and certain other raw materials. The Group also enters into forward contracts to manage foreign currency exposure risk.

The Group does not hold speculative positions against movements in foreign currencies or interest rates.

Directors' report continued

Business review continued

Capital

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

As part of its capital management the Group monitors its overall level of borrowings and its gearing ratio, which is borrowings net of cash balances divided by shareholders' equity, and ensures that it is kept within acceptable bounds. The Group also ensures that it has sufficient committed and unused banking facilities to provide the Directors with comfort on the Group's foreseeable needs and its liquidity position. The Business review includes a paragraph referring to the strengthening cashflows and reduced gearing which occurred in the year ended September 2011.

No changes were made to these objectives, policies or processes during the years ended 30 September 2010 and 2011.

Research and development

The Group has continued with the development of its electronic controllers, software and firmware used in the touch sensors. It launched a new sensor format in May 2011 and has developed its own suite of open source drivers.

The R&D team is continuing to investigate the use of other sensor configurations and processing media in the manufacture of its touch sensors.

Further details on the Group's R&D activities are included in the Business review.

Key performance indicators ("KPIs")

The KPIs for the business are primarily financial.

The current KPIs consist of setting targets for and monitoring the level and growth of sales; improving the gross profit margin; and controlling the level of overheads. The Directors set targets for operating management in terms of sales growth and margin improvement. The actual performance of the Group against each of these KPIs is set out in the Chairman's statement and Business review.

In addition, the Directors review an "activity monitor" which the sales team uses to record significant sales opportunities, the key dates in the development of each sale's prospect with the customer, volumes and values of the opportunities and expected production commencement dates.

The Directors have not developed KPIs relating to environmental matters, the Group's employees, or social and community issues.

The Directors maintain a close watch on the level and competitiveness of wages paid to factory staff and the market level of staff salaries to ensure that the Group is not at a disadvantage when seeking to recruit or to retain staff. The Group also uses share option schemes to incentivise employees. The Remuneration report summarises the policies relating to executive management.

Results and dividends

The consolidated income statement is set out on page 26. The Group profit after taxation amounted to £2.7m (2010: £2.2m). The Directors propose the payment of a final dividend of 5.6p per share (2010: 5.0p). Following the dividend of 2.1p per share paid in July 2011, this will bring the total dividend for the year to 7.7p per share (2010: 7.0p), an increase of 10%.

Directors

The Directors of the Company are shown on page 14. All of the Directors were Directors for the whole of the year. In addition, John Kennair MBE was a Director of the Company until the AGM on 10 February 2011 when he withdrew from re-election. David Banks, the former Chairman, resigned on 4 March 2011. The emoluments and interests of the Directors in the shares of the Company are set out in the Remuneration report.

Statement of Directors' responsibilities in relation to the Group financial statements

The Directors are responsible for preparing the annual report and the Group financial statements in accordance with UK law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Under company law the Directors must not approve the Group financial statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cashflows of the Group for that period. In preparing those financial statements the Directors are required to:

> select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;

> present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

> provide additional disclosures when compliance with specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;

> state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the financial statements; and

> make judgements and accounting estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group, enabling them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of Directors' responsibilities in relation to the Group financial statements continued

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to auditors

The Directors who were members of the Board at the time of approving the Directors' report are listed on page 14. Having made enquiries of fellow Directors and of the Company's auditors, each of these Directors confirms that:

> to the best of each Director's knowledge and belief, there is no information (that is, information needed by the Company's auditors in connection with preparing their report) of which the Company's auditors are unaware; and

> each Director has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

Significant interests in shares

On 5 December 2011, the following had significant interests in the ordinary shares of the Company:

Shareholders	Number of shares	Percentage holding
AXA S.A. (Framlington Investment Management Limited)	2,646,706	18.0%
Henderson Volantis	1,647,000	11.2%
Hargreave Hale	1,536,913	10.4%
John Kennair, MBE – past Chairman (beneficial and non-beneficial)	1,187,708	8.1%
Blackrock Investment Managers	963,650	6.5%
Williams de Broe	828,952	5.6%
Saracen Investment Funds – Growth Fund	617,404	4.2%

Creditor payment policy and practice

It is the Group's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Group and its suppliers, provided that all trading terms and conditions have been complied with. At 30 September 2011, the Company had an average of 30 days' (2010: 30 days') purchases outstanding in trade creditors.

Political and charitable contributions

The Group did not make any political or charitable contributions during the year (2010: £Nil).

Special business

A resolution will be proposed at the forthcoming Annual General Meeting to renew the existing authority of the Directors, last conferred by a resolution passed at the Annual General Meeting held in 2011, to allot unissued ordinary shares of the Company. The authority (special resolution 1 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2013 and is in respect of one-third of the Company's issued share capital.

The Directors consider it advisable that they continue to have power to make allotments of ordinary shares of the Company for cash without reference to the statutory pre-emption rights, up to a maximum of 736,676 ordinary shares, being 5% of the issued ordinary share capital of the Company at 30 September 2011. The authority (special resolution 2 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2013 and also would enable the Directors to implement a rights issue.

In addition, the Directors consider it advisable that the Company has the authority to make market purchases of its own shares up to a maximum of 1,473,352 ordinary shares of the Company, being 10% of the issued ordinary share capital. The authority (special resolution 3 in the Notice of Annual General Meeting) will extend until the Annual General Meeting held in 2013. The power conferred by this authority would only be used after careful consideration by the Directors, having taken into account market conditions prevailing at the time, the investment needs of the Company, its opportunities for expansion and its overall financial position. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase(s) could be expected to result in an increase in EPS.

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditors will be put to the shareholders at the forthcoming Annual General Meeting.

By order of the Board

Denis Mullan, B.Sc, FCA
Company Secretary
14 December 2011

Corporate governance

As an AIM listed company, Zytronic is not obliged to comply with The UK Corporate Governance Code published in June 2010 (the "Code") but instead uses its provisions as a guide, but only as considered appropriate to the circumstances of the Company.

The Company is committed to high standards of corporate governance. The Directors consider that, except for the matters noted below, the Company has, throughout the year, been in full compliance with the provisions set out in the Code.

- B2.1 – For reasons explained below, the Company does not have a separate nominations committee.
- B2.3 – The Non-executive Directors have not been appointed for a specific term, but their contracts are terminable with six months' notice.
- B6 – The Board has not undertaken a formal evaluation of its own performance and that of its committees and individual members.
- C3.1 – The Company Chairman may sit on the audit committee, but he shouldn't chair it. Tudor Davis became Chairman of Zytronic plc on 4 March 2011, at which date he was already Chairman of the audit committee. As the only Non-executive Director on the Board with an accountancy background it was considered to be beneficial to the Company for him to remain in that position for the time being. David Buffham, who became a Non-executive Director only in September 2010, has subsequently joined the audit committee.

In view of the size and structure of the Group, the Board does not believe that these exceptions had any detrimental effect on the control environment and corporate governance.

The workings of the Board and its committees

The Board

Throughout the year, Tudor Davies, the Non-executive Chairman, Mark Cambridge, the Chief Executive, Denis Mullan, the Finance Director, Sir David Chapman, Bt., and David Buffham, the two Independent Non-executive Directors, were members of the Board. David Banks, the former Non-executive Chairman and John Kennair, MBE, a Non-independent Non-executive Director left the Board on 4 March 2011 and 10 February 2011 respectively.

The Non-executive Directors demonstrate a range of experience and sufficient calibre to bring independent judgement on issues of strategy, performance, resources and standards of conduct which are vital to the success of the Group.

The Board normally meets at least five times per year. Its direct responsibilities include setting annual budgets, reviewing trading performance, approving significant capital expenditure, ensuring adequate funding, setting and monitoring strategy, examining major acquisition possibilities and reporting to shareholders. Between meetings there is regular informal discussion between the Chairman, Chief Executive, Finance Director and individual Non-executive Directors. The Non-executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered.

To enable the Board to discharge its duties, all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board meetings. The Chairman ensures that the Directors are able to take independent professional advice as required, at the Company's expense.

The standing committees established by the Board are the remuneration committee and audit committee, each of which operates within defined terms of reference.

A nominations committee has not been established as the Board is small. The nominations process prior to Board appointments takes into account the views of all existing Board members and some advisers. Any Director appointed to the Board since the last Annual General Meeting is required to seek re-election at the subsequent Annual General Meeting. All Directors are subject to re-election at least once every three years.

The number of meetings of the Board, and the attendance of Directors, was as follows:

Directors	Number of meetings	Attendance
Tudor Davies	5	4
Mark Cambridge	5	5
Denis Mullan	5	5
David Buffham	5	5
Sir David Chapman, Bt.	5	5
David Banks	2	2
John Kennair, MBE	1	1

The workings of the Board and its committees continued

Remuneration committee

The remuneration committee is chaired by Sir David Chapman, Bt., the Senior Independent Non-executive Director. The other member is David Buffham, an Independent Non-executive Director who was appointed during the year. Tudor Davies stepped down from the remuneration committee following his appointment to Chairman on 4 March 2011. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost, including the remuneration of some subsidiary Directors. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, pension rights and compensation payments. Further details of the Company's policies on remuneration, service contracts and compensation payments are given in the Remuneration report. The Chairman's remuneration is determined by a sub-committee comprising only the Independent Non-executive Directors.

The number of meetings of the committee, and the attendance of members, was as follows:

Committee members	Number of meetings	Attendance
Sir David Chapman, Bt.	2	2
David Buffham	1	1
Tudor Davies	1	1
David Banks	1	1

Audit committee

The audit committee is chaired by Tudor Davies. The other members are Sir David Chapman, Bt., the Senior Independent Non-executive Director, and David Buffham, who was appointed during the year. The Independent Non-executive Directors' meetings are also attended, by invitation, by the other Directors. The committee meets at least twice a year. The committee provides a forum for reporting by the Group's external auditors.

The audit committee is responsible for reviewing a wide range of matters including the half year and annual financial statements before their submission to the Board and monitoring the controls which are in force to ensure the integrity of the information reported to the shareholders. The audit committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work and discusses the nature, scope and results of the audit with the auditors.

The audit committee keeps under review the cost effectiveness of the auditors. It also reviews the extent of the non-audit services provided by the auditors and reviews with them their independence and objectivity. The Chairman of the audit committee reports the outcome of audit committee meetings to the Board and the Board receives minutes of the meetings.

The number of meetings of the committee, and the attendance of members, was as follows:

Committee members	Number of meetings	Attendance
Tudor Davies	2	1
Sir David Chapman, Bt.	2	2
David Buffham	1	1

Relations with shareholders

Communication with shareholders is given high priority. There is regular dialogue with major and/or institutional shareholders including presentations after the Company's announcements of the half year and full year results in May and December respectively. Presentations are also made to analysts and journalists at those times to present the Group's results and report on developments. This assists with the promotion of knowledge of the Group in the investment marketplace and with shareholders. The financial statements include a review of the business and future developments. These financial statements, the presentations and other information relating to the Group are also available on the Group's website, www.zytronic.co.uk.

Following the half year and year-end presentations of results, the Executive Directors report to the Board on the feedback received from journalists, analysts and shareholders. In addition, the Company's financial PR advisers and the Company's NOMAD also produce a feedback report from those meetings which is made available to all Directors. The Executive Directors also report to the Board on any meetings with shareholders or institutional investors that may take place at other times of the year.

The Board uses both the annual report and financial statements and the Annual General Meeting to communicate directly with private and institutional investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the audit and remuneration committees are available at the Annual General Meeting to answer questions. Details of resolutions to be proposed at the Annual General Meeting on Tuesday 21 February 2012 can be found in the Notice of Annual General Meeting on pages 62 and 63.

In addition, the Senior Independent Director is available to shareholders if they have any concerns which contact through the normal channels of the Chairman, Chief Executive or the Finance Director has failed to resolve or for which such contact is inappropriate.

Corporate governance continued

Internal control

The Board is responsible for establishing and maintaining the Group's system of internal control and for reviewing its effectiveness. The system is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. As an AIM listed company, the Company does not need to comply with Code provision C2.1 regarding the Directors giving a summary of the process applied by the Board in reviewing the effectiveness of the system of internal control. Instead, the Directors set out below some of the key aspects of the Group's internal control procedures.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group. The process has been in place for the full year under review and up to the date of approval of the annual report and financial statements. The Board regularly reviews this process as part of its review of such risks within Board meetings. Where any weaknesses are identified, an action plan is prepared to address the issues and is then implemented.

The Board has overall responsibility for the Group and there is a formal schedule of matters specifically reserved for decision by the Board. Authority to operate the trading subsidiary, Zytronic Displays Limited, is delegated to its Board of Directors and through them it is run by its management within limits set by the Board. The appointment of Executives to the most senior positions within the Group requires the approval of the Board.

Each year the Board approves the annual budget. Key risk areas are identified, reviewed and monitored. Performance is monitored against budget, relevant action is taken throughout the year and updated forecasts are prepared as appropriate. The reports reviewed by the Board include reports on operational as well as financial issues.

Capital and development expenditure is regulated by a budgetary process and authorisation levels. For expenditure beyond specified levels, detailed written proposals have to be submitted to the Board for approval. Reviews are carried out after the purchase is complete. The Board requires management to explain any major deviations from authorised capital proposals and to seek further sanction from the Board.

Due diligence work is carried out if a business is to be acquired.

The Board has reviewed the need for an internal audit function and concluded that this is not currently necessary in view of the small size of the Group and the close supervision by senior management of its day-to-day operations. The Board will continue to keep this under review.

The Group has a whistle-blowing policy and procedures to encourage staff to contact the Chairman if they need to raise matters of concerns other than via the Executive Directors and senior management.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business review on pages 6 to 13. The financial position of the Group, its cashflows, liquidity position and borrowing facilities are described within the Business review also. In addition, note 21 to the financial statements includes the Group's objectives, policies, its financial risk management objectives, details of its financial instruments and hedging activities and its exposure to credit risk and liquidity risk.

The Group's business is well diversified, with relationships with customers and suppliers across different geographic areas and industries. It also has considerable financial resources. As a consequence, the Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Remuneration report

As the Company is AIM listed, the Directors are not required, under Section 420(1) of the Companies Act 2006, to prepare a Directors' Remuneration report for each financial year of the Company and so Zytronic plc makes the following disclosures voluntarily, which are not intended to, and indeed do not, comply with the requirements of the Companies Act 2006.

The remuneration committee is responsible for determining the remuneration and other terms of employment for the Executive Directors of Zytronic plc and some of the Directors in its trading subsidiary, Zytronic Displays Limited. The committee is composed of the Senior Independent Non-executive Director and the Independent Non-executive Director. In determining remuneration for the year, the committee has given full consideration to the requirements of the Combined Code.

Remuneration policy

The remuneration of Executive Directors is determined by the committee and the remuneration of Non-executive Directors is approved by the full Board of Directors. The remuneration of the Chairman is determined by the Independent Non-executive Directors.

The key objectives of the committee in determining the remuneration packages of Executive Directors are:

- the recruitment, retention and incentivisation of executive management of the right calibre; and
- the alignment of executive management and shareholder interests.

The remuneration packages of Executive Directors comprise the following elements:

Basic salary and benefits

Basic salaries for Executive Directors are reviewed annually having regard to individual performance and market practice. In most cases benefits provided to Executive Directors comprise the provision of a company car, or appropriate allowance, health insurance and contributions to a Group personal pension scheme. Details of emoluments for the Directors of Zytronic plc are set out on page 22.

Annual bonus

A discretionary bonus may be awarded by the remuneration committee to reward exceptional individual performance.

Share options and incentive schemes

The Company believes that share ownership by Executive Directors and employees strengthens the link between their personal interests and those of the Company and the shareholders.

The Company has executive share option and incentive schemes, which are designed to promote long term improvement in the performance of the Group, sustained increase in shareholder value and clear linkage between executive reward and the Group's performance. The share options and incentive schemes of the Directors of Zytronic plc are set out on pages 23 and 24.

It will normally be the case that, on the option holder ceasing employment with the Group, the options will be terminated. In some circumstances, the Board may have discretion to waive this where the past contribution to the business by the option holder justifies it.

The Company also has a sharesave option scheme. Membership is open to all eligible employees, including Directors, who have more than three months' employment with the Group at the time options are offered under a scheme. In compliance with the Combined Code the Board has agreed that it will not grant share options to Non-executive Directors.

Service contracts

Mark Cambridge and Denis Mullan both have a service contract with a notice entitlement of six months.

The committee considers the Directors' notice entitlements to be appropriate as they are in line with the market and take account of the Directors' knowledge and experience. There are no special provisions for predetermined compensation in the event of loss of office.

Non-executive Directors

The fees of the Non-executive Directors are determined by the full Board within the limits set out in the Memorandum and Articles of Association. The Non-executive Directors are not eligible for bonuses, pension benefits or share options.

Remuneration report continued

Directors' emoluments

Emoluments of the Directors for the year ended 30 September 2011 are:

	Salary £'000	Fees £'000	Benefits £'000	Bonus £'000	**Total emoluments* 2011 £'000**	Total emoluments* 2010 £'000
Non-executive Chairman						
Tudor Davies	—	49	—	—	**49**	26
David Banks**	—	60	—	—	**60**	46
Executive						
Mark Cambridge	108	—	9	27	**144**	131
Denis Mullan	93	—	11	19	**123**	107
Non-executive						
Sir David Chapman, Bt.	—	27	—	—	**27**	26
David Buffham***	—	25	—	—	**25**	1
John Kennair, MBE****	11	—	—	—	**11**	72
	212	161	20	46	**439**	409

* Excluding pension contributions.

** Fees were paid to David Banks Associates, a partnership in which David Banks is a partner. David Banks resigned from the Board on 4 March 2011. Fees include payment for contractual notice.

*** David Buffham joined the Board on 22 September 2010.

**** John Kennair, MBE withdrew from re-election at the AGM on 10 February 2011.

Pension contributions

During the year, the Group made annual pension contributions for Mark Cambridge and Denis Mullan, Executive Directors, to a personal pension scheme (i.e. a defined contribution scheme). Neither benefits in kind nor bonuses are pensionable.

Details of contributions payable by the Company are:

Director	**2011 £'000**	2010 £'000
Mark Cambridge	**3**	3
Denis Mullan	**3**	3
Total	**6**	6

Directors' shareholdings

Beneficial interests of the Directors in the shares of the Company, including those of their immediate families, were:

	30 September 2011		30 September 2010	
	Number	**%**	Number	%
Denis Mullan	**140,109**	**0.95**	140,109	0.95
Tudor Davies	**90,909**	**0.62**	90,909	0.62
Sir David Chapman, Bt.	**40,000**	**0.27**	40,000	0.27
Mark Cambridge	**36,113**	**0.25**	36,113	0.25
David Buffham	**12,500**	**0.08**	5,000	0.03

There has been no change in Directors' shareholdings since 30 September 2011.

Directors' share options

Enterprise Management Incentive Scheme	30 September 2010 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	**30 September 2011 Number**	Exercise dates	Option price
Denis Mullan	100,000	—	—	—	**100,000**	16 March 2006 to 15 March 2014	70.0p
Denis Mullan	17,182	—	—	—	**17,182**	18 January 2008 to 17 January 2015	145.5p
Denis Mullan	2,300	—	—	—	**2,300**	28 February 2011 to 27 February 2018	216.5p
Denis Mullan	7,500	—	—	—	**7,500**	15 July 2013 to 15 July 2020	177.5p
Denis Mullan	—	3,100	—	—	**3,100**	29 March 2014 to 28 March 2021	172.8p
Mark Cambridge	17,182	—	—	—	**17,182**	18 January 2008 to 17 January 2015	145.5p
Mark Cambridge	27,250	—	27,250	—	**—**	11 January 2009 to 10 January 2016	274.5p
Mark Cambridge	—	27,250	—	—	**27,250**	6 October 2013 to 5 October 2016	176.0p
Mark Cambridge	—	21,750	—	—	**21,750**	29 March 2014 to 28 March 2021	172.8p

Unapproved Scheme	30 September 2010 Number	Granted during year Number	Lapsed during year Number	Exercised during year Number	**30 September 2011 Number**	Exercise dates	Option price
Denis Mullan	12,700	—	—	—	**12,700**	28 February 2011 to 27 February 2018	216.5p
Denis Mullan	—	10,000	—	—	**10,000**	29 March 2014 to 28 March 2021	172.8p

Director's share incentive scheme

Share incentive scheme for Mark Cambridge, Chief Executive

The remuneration committee agreed an incentive award scheme for Mark Cambridge, Chief Executive, to offer him up to 200,000 shares at a price of 25.0p per share to vest based on specified performance criteria.

These are measured by an EPS, calculated on the audited pre-tax profit and a standard 28% tax charge. The EPS criteria are shown below:

	Performance criteria			
	Lower limit		Upper limit	
	EPS Pence	Shares to vest	EPS Pence	Shares to vest
Year to 30 September 2009 (year 1)	13.5	80,000	15.0	100,000
Year to 30 September 2010 (year 2)	18.3	60,000	22.0	80,000
Year to 30 September 2011 (year 3)	24.5	60,000	24.5	20,000

Vesting is:

> the entitlement to buy, which doesn't disappear once earned;

> pro rata between the upper and lower limits;

> timed on signature of audited accounts with a clean audit report; and

> cumulative, e.g. 200,000 shares can vest in year 3 if the upper limit is reached, even if the lower limits have not been achieved in the previous years.

Remuneration report continued

Director's share incentive scheme continued

Share incentive scheme for Mark Cambridge, Chief Executive continued

If the 24.5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24.5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater.

As at 30 September 2011, no shares had vested under this incentive scheme.

Vesting will also take place in the event of a successful takeover and will be based on the takeover price, with full vesting at a share price of 500p and pro rata vesting down to a price of 300p as follows:

- 1,000 shares for each 1p above 300p up to 500p until 30 September 2011, reduced for any shares which have already vested;
- 625 shares for each 1p above 300p up to 500p between 1 October 2011 and 30 September 2012, reduced for any shares which have already vested; and
- 250 shares for each 1p above 300p up to 500p between 1 October 2012 and 30 September 2013, reduced for any shares which have already vested.

Share price during the year

During the year to 30 September 2011, the highest share price was 246.0p and the lowest share price was 155.5p. The market price of the shares at 30 September 2011 was 195.0p.

Directors' interests in material contracts

As noted on page 22, the Company paid Directors' fees to David Banks Associates, a partnership in which David Banks is a partner. David Banks resigned on 4 March 2011 and at 30 September 2011 the amount due to David Banks Associates was £Nil (2010: £6,365).

No Director was materially interested either at the year end or during the year in any contract of significance to the Group other than their employment or service contract.

Independent auditors' report

To the members of Zytronic plc

We have audited the Group financial statements of Zytronic plc for the year ended 30 September 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cashflow Statement and the related notes 1 to 26. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 16 and 17, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Zytronic plc annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

> give a true and fair view of the state of the Group's affairs as at 30 September 2011 and of its profit for the year then ended;

> have been properly prepared in accordance with IFRSs as adopted by the European Union; and

> have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

> certain disclosures of Directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Parent Company financial statements of Zytronic plc for the year ended 30 September 2011.

Annie Graham (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle-upon-Tyne
14 December 2011

Notes

1. The maintenance and integrity of the Zytronic plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the year ended 30 September 2011

	Notes	2011 £'000	2010 £'000
Group revenue	2	**20,488**	18,483
Cost of sales		**13,574**	12,589
Gross profit		**6,914**	5,894
Distribution costs		**239**	231
Administration expenses		**3,194**	2,738
Group trading profit	3	**3,481**	2,925
Other operating income		**187**	112
Group operating profit from continuing operations		**3,668**	3,037
Finance costs	5(a)	**112**	126
Finance revenue	5(b)	**1**	13
Profit from continuing operations		**3,557**	2,924
Tax expense	6	**865**	736
Profit for the year from continuing operations		**2,692**	2,188
Earnings per share			
Basic	8	**18.3p**	14.9p
Diluted	8	**18.1p**	14.8p

Consolidated statement of comprehensive income

For the year ended 30 September 2011

There are no recognised gains or losses other than the profit attributable to shareholders of the Company as presented in the consolidated income statement above.

Consolidated statement of changes in equity

For the year ended 30 September 2011

	Called up share capital* £'000	Share premium** £'000	Retained earnings £'000	Total £'000
At 30 September 2009	147	6,479	3,372	9,998
Profit for the year	—	—	2,188	2,188
Tax recognised directly in equity	—	—	5	5
Exercise of share options	—	40	—	40
Refund of VAT on flotation expenses previously disallowed	—	31	—	31
Share-based payments	—	—	42	42
Dividends	—	—	(852)	(852)
At 30 September 2010	147	6,550	4,755	11,452
Profit for the year	—	—	2,692	2,692
Tax recognised directly in equity	—	—	7	7
Exercise of share options	—	38	—	38
Share-based payments	—	—	(38)	(38)
Dividends	—	—	(1,044)	(1,044)
At 30 September 2011	**147**	**6,588**	**6,372**	**13,107**

* Share capital represents proceeds on issue of the Company's equity share capital.

** Share premium comprises the excess in proceeds on issue of the Company's equity share capital above the nominal value of the shares issued.

Consolidated balance sheet

At 30 September 2011

	Notes	2011 £'000	2010 £'000
Assets			
Non-current assets			
Intangible assets	9	**1,811**	1,869
Property, plant and equipment	10	**8,113**	8,387
Trade and other receivables	12(b)	**296**	198
		10,220	10,454
Current assets			
Inventories	11	**2,754**	2,588
Trade and other receivables	12(a)	**4,021**	3,466
Cash and short term deposits	13	**4,513**	1,505
		11,288	7,559
Total assets		**21,508**	18,013
Equity and liabilities			
Current liabilities			
Trade and other payables	14	**1,778**	1,582
Financial liabilities	15	**2,266**	669
Accruals	14	**1,118**	600
Taxation liabilities		**502**	357
Government grants	16	**192**	192
		5,856	3,400
Non-current liabilities			
Financial liabilities	17	**1,722**	2,045
Deferred tax liabilities (net)	20	**726**	827
Government grants	16	**97**	289
		2,545	3,161
Total liabilities		**8,401**	6,561
Net assets		**13,107**	11,452
Capital and reserves			
Equity share capital	22	**147**	147
Share premium	22	**6,588**	6,550
Revenue reserve		**6,372**	4,755
Total equity		**13,107**	11,452

These financial statements have been approved by the Board of Directors on 14 December 2011 and signed on its behalf by:

Mark Cambridge, B.Sc
Chief Executive
14 December 2011

Denis Mullan, B.Sc, FCA
Finance Director

Consolidated cashflow statement

For the year ended 30 September 2011

	Notes	2011 £'000	2010 £'000
Operating activities			
Profit from continuing operations		**3,557**	2,924
Net finance costs		**111**	113
Depreciation and impairment of property, plant and equipment		**802**	654
Amortisation and impairment of intangible assets		**355**	333
Amortisation of government grant		**(192)**	(102)
Share-based payments		**(38)**	42
Working capital adjustments			
Increase in inventories		**(166)**	(85)
Increase in trade and other receivables		**(647)**	(356)
Increase in trade and other payables		**697**	279
Cash generated from operations		**4,479**	3,802
Taxation paid		**(821)**	(655)
Net cashflow from operating activities		**3,658**	3,147
Investing activities			
Interest received		**1**	13
Proceeds from disposal of property, plant and equipment		**11**	—
Receipt of government grant		**—**	540
Purchases of property, plant and equipment	10	**(525)**	(640)
Payments to acquire intangible assets		**(297)**	(228)
Net cashflow from investing activities		**(810)**	(315)
Financing activities			
Interest paid		**(110)**	(128)
Dividends paid to equity shareholders of the parent		**(1,044)**	(852)
Proceeds from share issues re. options		**38**	40
Refund of VAT on flotation expenses previously disallowed		**—**	31
Repayment of borrowings		**(323)**	(342)
Repayment of capital element of hire purchase contracts		**(45)**	(476)
Net cashflow from financing activities		**(1,484)**	(1,727)
Increase in cash and cash equivalents		**1,364**	1,105
Cash and cash equivalents at the beginning of the year	13	**1,214**	109
Cash and cash equivalents at the year end	13	**2,578**	1,214

Notes to the consolidated financial statements

For the year ended 30 September 2011

1. Accounting policies

(a) Authorisation of financial statements and statement of compliance

The financial statements of Zytronic plc and it subsidiaries (the "Group") for the year ended 30 September 2011 were authorised for issue by the Board of Directors on 14 December 2011 and the balance sheet was signed on behalf of the Board by Tudor Davies and Denis Mullan. Zytronic plc is a public limited company incorporated, domiciled and has its registered office, in England and Wales. The Company's ordinary shares are traded on AIM. The address of its registered office and principal place of operation are disclosed in the Corporate information section of this report.

The consolidated financial statements have been prepared in accordance with IFRS as adopted for use in the European Union and as applied in accordance with the provisions of the Companies Act 2006. The Directors consider the following accounting policies to be relevant in relation to the Group's financial statements.

(b) New standards and interpretations not applied

The International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") have issued the following standards and interpretations with an effective date after the date of these financial statements:

IASB		Effective date
IAS 1	Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 12	Amendment to IAS 12 Deferred Tax-Recovery of Underlying Assets	1 January 2012
IAS 19	Amendments to IAS 19 Employee Benefits	1 January 2013
IAS 24	Amendment to IAS 24 Related Party Disclosures	1 January 2011
	Improvements to IFRS (May 2010)	1 January 2011
IAS 27R	Separate Financial Statements	1 January 2013
IAS 28R	Investments in Associates and Joint Ventures	1 January 2013
IFRS 1	Amendment to IFRS 1 Severe Hyperinflation and Removal of Fixed Dates for First Time Adopters	1 July 2011
IFRS 7	Amendment to IFRS 7 Disclosures – Transfers of Financial Assets	1 July 2011
IFRS 9	Financial Instruments: Classification and Measurement	1 January 2013
IFRS 10	Consolidated Financial Statements	1 January 2013
IFRS 11	Joint Arrangements	1 January 2013
IFRS 12	Disclosures of Interests in Other Entities	1 January 2013
IFRS 13	Fair Value Measurement	1 January 2013

IFRIC		Effective date
IFRIC 14	Prepayments of a Minimum Funding Requirement (Amendment)	1 January 2011
IFRIC 20	Shipping Costs in the Production Phase of a Surface Mine	1 January 2013

The Directors do not anticipate adoption of these standards and interpretations will have a material impact on the Group financial statements.

(c) New standards adopted

The following new standards or interpretations are mandatory for the first time for the financial year ended 30 September 2011:

IASB	
	2009 Improvements to IFRS
	2010 Improvements to IFRS
IFRS 1	Amendments to IFRS 1 Additional Exemptions for First Time Adopters
IFRS 2	Amendments to IFRS 2 Group Cash-settled Share-based Payment Transactions
IAS 32	Amendment to IAS 32 Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments

Adoption of the remaining new standards and interpretations did not have a material impact on the financial performance of the Group.

1. Accounting policies continued

(d) Judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting principles requires the Directors to make judgements and assumptions that affect the reported amounts of assets, liabilities and disclosures at the date of the financial statements and the reported income and expense during the year. Although these judgements and assumptions are based on the Directors' best knowledge of the amount, events or actions, actual results may differ from those estimates.

In the process of applying the Group's accounting policies, the Directors have made the following judgements concerning the future and other key sources of estimation uncertainty at the statement of financial position date which have the most significant effect on the amounts recognised in the financial statements:

Impairment of non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Goodwill is tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

When value-in-use calculations are undertaken, management must estimate the expected future cashflows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cashflows.

Development costs

Development costs are capitalised in accordance with the accounting policy given below. Initial capitalisation of costs is based on management's judgement that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone.

Accounting for income tax

As part of the process of preparing financial statements, the Group estimates income tax in each of the jurisdictions in which the Group operates. This process involves estimating actual current tax expense and temporary differences between carrying amounts of assets and liabilities for tax expense and financial reporting purposes. Temporary differences result in deferred tax assets and liabilities, which are included in the statement of financial position. Further details are contained in note 6.

Royalty prepayment

In accounting for the impairment of any prepayment that arises on the payment of royalties, management prepares forecasts of its future sales of touch products to assess royalty prepayment recoverability. Any prepayment which is not considered to be recoverable over the period of the licence is provided against.

(e) Basis of consolidation and goodwill

The consolidated financial statements comprise the financial statements of Zytronic plc and its subsidiaries as at 30 September each year. They are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except where otherwise indicated.

All intra-group balances and transactions, including unrealised profits arising from them, are eliminated.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

1. Accounting policies continued

(f) Foreign currencies

The consolidated financial statements are presented in Sterling, which is the Company's functional and presentation currency. Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

(g) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment charges. Such costs include those directly attributable to making the asset capable of operating as intended and the cost of replacing significant parts of such plant and equipment when that cost is incurred, if the recognition criteria are met. Depreciation is provided on all property, plant and equipment, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land	–	Nil
Freehold property	–	50 years
Long leasehold property	–	50 years
Plant and machinery	–	varying rates between 5% and 25% per annum

Any gain or loss arising on disposal of an asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end and adjusted, if appropriate. The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's fair value, or the cash-generating unit's fair value of which it forms part, less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

(h) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is deemed to be their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Other than capitalised development costs, internally generated intangible assets are not capitalised.

Intangible assets are amortised on a straight line basis over their useful economic lives and reviewed for impairment at each financial year end. The amortisation expense on intangible assets is recognised in the income statement in the expense category consistent with the function of the intangible asset. The estimated useful lives are as follows:

Licences	–	period of licensing agreements (10 and 17 years)
Capitalised development expenditure	–	4 to 10 years
Software	–	4 years

Intangible assets with indefinite useful lives, such as goodwill, are tested for impairment annually and not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable.

(i) Research and development costs

Research expenditure is written off as incurred. An intangible asset arising from development expenditure on an individual project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the asset and the ability to measure reliably the expenditure during the development.

1. Accounting policies continued

(i) Research and development costs continued

During the period of development, the asset is tested annually for impairment. Following the initial recognition of the development expenditure, the cost model (as defined in IFRS) is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales.

(j) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials and consumables	–	purchase cost on a first-in, first-out basis
Finished goods and work in progress	–	cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(k) Trade and other receivables

Trade receivables are recognised and carried at original amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Trade and other receivables do not carry interest.

(l) Cash and cash equivalents

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an initial maturity of three months or less. Bank overdrafts are shown within financial liabilities, in current liabilities, on the balance sheet. For the purpose of the cashflow statement, cash and cash equivalents comprise these balances, net of outstanding bank overdrafts.

(m) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the costs of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(n) Derecognition of financial assets and liabilities

A financial asset or financial liability is derecognised when the contract that gives rise to it is discharged, sold, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

(o) Financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

The Group does not apply any hedge accounting.

(p) Pension scheme

The Group operates a group personal pension scheme, which is a defined contribution scheme, for its employees. Contributions are recognised in the income statement as they become payable in accordance with the rules of the scheme.

1. Accounting policies continued

(q) Leases

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Assets held under finance leases are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and payments are recognised as an expense in the income statement on a straight line basis over the lease term.

(r) Share-based payment transactions

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, no account is taken of any service performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions and the number of equity instruments that will ultimately vest or, in the case of an instrument subject to a market vesting condition or a non-vesting condition, be treated as vesting. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. No reduction is recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation and any cost not yet recognised in the income statement for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the income statement.

IFRS 2 Share-based Payments has only been applied to grants of equity instruments after 7 November 2002 that had not vested at 1 October 2006. For awards granted before 7 November 2002, the Group recognises only the intrinsic value or cost of these potential awards as an expense. This is accrued over the performance period of each plan based on the intrinsic value of the equity-settled awards.

(s) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. This is when the goods have been dispatched or made available to the customer, an invoice has been raised for them and the Group's obligations to the customer have been met. There is not usually any significant delay between the occurrence of these three events.

Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes. Appropriate provisions for known returns are deducted from revenue.

1. Accounting policies continued

(t) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with, normally when a grant claim has been approved by the government authority and the grant monies have been received. The fair value of grants is credited to a deferred income account and released to the income statement over the life of the projects to which they relate.

(u) Royalty payments

Under the terms of its patent licence, Zytronic Displays Limited pays royalties to the patent owner on the value of the touch sensors which it sells. An agreed annual payment is made by monthly instalment under the licence.

In the event that the actual quarterly royalties due from Zytronic Displays Limited exceed the payments on account for that quarter, Zytronic Displays Limited pays the balance to the patent owner.

In the event that the payments on account for that quarter exceed the actual royalties due to that date, the excess payment is treated by Zytronic Displays Limited as a prepayment of royalties that will become due in the future. Similarly, should the annual agreed payment be in excess of the royalties due for the year, the difference is rolled over and deducted from future years' royalty calculations.

Management reviews its forecasts of future sales to determine whether any impairment has occurred which might affect the carrying value of the prepayment.

From 1 January 2008, and for each subsequent calendar year, the annual payment will increase either by the greater of RPI or to the level of the previous year's actual royalties.

(v) Deferred tax

Deferred tax is recognised in respect of all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred taxation assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the related asset or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. Group revenue and segmental analysis

Revenue represents the invoiced amount of goods sold and services provided, stated net of value added tax, rebates and discounts.

For management purposes, the Group considers that it has a single business unit comprising the development and manufacture of customised optical filters to enhance electronic display performance. All revenue, profits or losses before tax and net assets are attributable to this single reportable business segment.

Management monitors the operating results of its entire business for the purposes of making decisions about resource allocation and performance assessment. Business performance is evaluated based on operating profits.

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

2. Group revenue and segmental analysis continued

All manufacturing takes place in the UK and accordingly all segment assets are located in the UK. The analysis of segment revenue by geographical area based on the location of customers is given below:

		30 September 2011		30 September 2010	
		£'000	%	£'000	%
Sale of goods	– UK	1,748	8	1,762	10
	– Americas	5,055	25	3,682	20
	– EMEA (excluding UK)	10,030	49	8,516	46
	– APAC	3,655	18	4,523	24
Revenue		20,488	100	18,483	100
Finance revenue		1		13	
Total revenue		20,489		18,496	

Individual revenues from three major customers exceed 10% of total revenue for the year. The total amount of revenue is £9.5m (2010: £9.5m).

The individual revenues from each of these three customers were: £4.1m (2010: £3.4m); £3.3m (2010: £3.2m); and £2.1m (2010: £2.9m).

3. Group operating profit

This is stated after charging/(crediting):

	30 September 2011 £'000	30 September 2010 £'000
R&D costs	308	215
Amortisation of development expenditure	164	153
Impairment of development expenditure	11	—
	483	368
Auditors' remuneration – in respect of audit services*	44	46
– in respect of taxation services	14	17
Depreciation of owned assets	671	494
Impairment of owned assets	131	—
Depreciation of assets held under HP agreements	—	160
Amortisation of licences	125	125
Impairment of licences	1	—
Cost of inventories recognised as an expense including:	7,615	7,222
– write-down of inventories to net realisable value	58	118
– reversals of impairments in inventories**	(152)	(12)
Hire of plant and machinery	2	2
Operating lease rentals – minimum lease payments	40	44
Amortisation of capital grants	(192)	(102)
Net foreign currency differences	26	49
Rental income	—	(3)

* £13,000 of this relates to the Company (2010: £15,000).

** The reversal of impairments in inventories has arisen as a result of previously impaired stock being utilised.

4. Staff costs and Directors emoluments

	30 September 2011 £'000	30 September 2010 £'000
Wages and salaries	**4,663**	4,121
Social security costs	**418**	379
Other pension costs	**56**	54
	5,137	4,554

Included in wages and salaries is a total credit for share-based payments of £38,000 (2010: £42,000 charge) all of which arises from transactions accounted for as equity-settled share-based payment transactions.

The total of Directors' emoluments is £439,000 (2010: £409,000). The aggregate value of contributions paid to money purchase pension schemes includes £6,000 (2010: £6,000) in respect of two Directors (2010: two).

Amounts paid to the highest paid Director are £144,000 (2010: £131,000) plus a contribution paid to the money purchase pension scheme of £3,000 (2010: £3,000).

The average number of employees during the year was made up as follows:

	30 September 2011 Number	30 September 2010 Number
Production	**171**	156
Administration and sales	**40**	37
	211	193

The information required by Schedule 5 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 is contained in the Remuneration report under Directors' emoluments, pension contributions, Directors' shareholdings and Directors' share options.

5. Finance costs payable and revenue receivable

(a) Finance costs

Interest payable	30 September 2011 £'000	30 September 2010 £'000
Finance charges payable under HP agreements	**—**	15
Bank loans and overdrafts	**112**	111
	112	126

(b) Finance revenue

Interest receivable	30 September 2011 £'000	30 September 2010 £'000
Bank interest receivable	**1**	13

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

6. Taxation

	30 September 2011 £'000	30 September 2010 £'000
Current tax		
UK corporation tax	941	728
Corporation tax under/(over) provided in prior years	18	(4)
Total current tax charge	959	724
Deferred tax		
Effect of change in tax rates	(56)	(20)
Origination and reversal of temporary differences	(38)	32
Total deferred tax charge	(94)	12
Tax charge in the income statement	865	736

Tax relating to items charged or credited to equity

	30 September 2011 £'000	30 September 2010 £'000
Deferred tax		
Tax on share-based payment	7	5
Total deferred tax charge	7	5
Tax charge in the statement of comprehensive income	7	5

Reconciliation of the total tax charge

The effective tax rate of the tax expense in the income statement for the year is 24% (2010: 25%) compared with the average rate of corporation tax in the UK of 27% (2010: 28%). The differences are reconciled below:

	30 September 2011 £'000	30 September 2010 £'000
Accounting profit before tax	3,557	2,924
Accounting profit multiplied by the UK average rate of corporation tax of 27% (2010: 28%)	960	819
Effects of:		
Expenses not deductible for tax purposes	(8)	4
"Gain" on exercise of share options allowable for taxation purposes but not reflected in the income statement	(29)	(22)
Depreciation in respect of non-qualifying items	49	51
Enhanced tax reliefs	(93)	(93)
Difference in tax rates	4	(11)
Tax under provided in prior years	(18)	(12)
Total tax expense reported in the income statement	865	736

Factors that may affect future tax charges

Under current tax legislation, some of the amortisation of licences will continue to be non-deductible for tax purposes.

Under HMRC's R&D tax credit scheme, the Group will receive an uplift of 75% on qualifying R&D expenditure for tax purposes incurred in the six months ended 31 March 2011 and 100% on expenditure incurred from 1 April 2011. Until the financial year 2006, where R&D expenditure has been capitalised, the benefit of this uplift is only recognised as the asset is amortised. The unrecognised element, relating to the year ended 30 September 2005 and prior, at 30 September 2011 was £50,000 (2010: £100,000). Following changes to HMRC's rules which took effect for financial year 2006, the uplift on expenditure which has been capitalised in any year is recognised in that year.

The "gain" on the exercise of share options, being the difference between the grant/exercise price and the market value at the time of exercise, is allowable as a taxable deduction from profits although it is not reflected within the income statement. These gains will arise in future years but their timing and amount is uncertain.

There are no tax losses carried forward at 30 September 2011 (2010: £Nil).

6. Taxation continued

Factors that may affect future tax charges continued

Following announcements in the 2011 Budget on 23 March 2011, it was proposed that the full rate of corporation tax be reduced for four years from 1 April 2011, ultimately bringing the corporation tax rate down to 23%. A reduction from 28% to 27% was substantively enacted on 20 July 2010 and was intended to take effect from 1 April 2011, however the 2011 Budget announced instead that this would be reduced to 26% and this was enacted on 29 March 2011. A further reduction to 25%, taking effect from 1 April 2012, was also enacted on 19 July 2011. The enacted reduction at the balance sheet date to 25% has been applied to the deferred tax assets and liabilities arising at the balance sheet date. The effect of the rate change to 23%, if it had been enacted at the balance sheet date, would have reduced the deferred tax liability by £38,000.

The Finance Act 2011 also confirmed previously announced proposed changes to capital allowances. The rate of writing down allowances on the main pool will reduce from 20% to 18% with effect from 1 April 2012.

7. Dividends

The Directors propose the payment of a final dividend of 5.6p per share (2010: 5.0p), payable on Friday 24 February 2012 to shareholders on the Register of Members on Friday 14 February 2012. This dividend has not been accrued in these financial statements. The dividend payment will amount to some £825,000.

	30 September 2011 £'000	30 September 2010 £'000
Ordinary dividends on equity shares		
Final dividend of 3.8p per ordinary share paid on 26 February 2010	—	558
Interim dividend of 2.0p per ordinary share paid on 25 June 2010	—	294
Final dividend of 5.0p per ordinary share paid on 25 February 2011	735	—
Interim dividend of 2.1p per ordinary share paid on 29 July 2011	309	—
	1,044	852

8. Earnings per share

Basic EPS is calculated by dividing the profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares in issue during the year. All activities are continuing operations and therefore there is no difference between EPS arising from total operations and EPS arising from continuing operations.

	Earnings 30 September 2011 £'000	Weighted average number of shares 30 September 2011 Thousands	EPS 30 September 2011 Pence	Earnings 30 September 2010 £'000	Weighted average number of shares 30 September 2010 Thousands	EPS 30 September 2010 Pence
Profit on ordinary activities after taxation	2,692	14,718	18.3	2,188	14,696	14.9
Basic EPS	2,692	14,718	18.3	2,188	14,696	14.9

The weighted average number of shares for diluted EPS is calculated by including the weighted average number of shares under option.

	Earnings 30 September 2011 £'000	Weighted average number of shares 30 September 2011 Thousands	EPS 30 September 2011 Pence	Earnings 30 September 2010 £'000	Weighted average number of shares 30 September 2010 Thousands	EPS 30 September 2010 Pence
Profit on ordinary activities after taxation attributable to ordinary equity holders	2,692	14,718	18.3	2,188	14,696	14.9
Weighted average number of shares under option	—	124	(0.2)	—	111	(0.1)
Diluted EPS	2,692	14,842	18.1	2,188	14,807	14.8

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

9. Intangible assets

	Software £'000	Goodwill £'000	Licences £'000	Development expenditure £'000	Total £'000
Cost					
At 30 September 2009	327	235	2,119	1,652	4,333
Additions	47	—	9	172	228
At 30 September 2010	374	235	2,128	1,824	4,561
Additions	68	—	5	224	297
At 30 September 2011	**442**	**235**	**2,133**	**2,048**	**4,858**
Amortisation and impairment					
At 30 September 2009	219	—	1,094	1,046	2,359
Provided during the year	55	—	125	153	333
At 30 September 2010	274	—	1,219	1,199	2,692
Provided during the year	54	—	125	164	343
Impairment	—	—	1	11	12
At 30 September 2011	**328**	**—**	**1,345**	**1,374**	**3,047**
Net book value at 30 September 2011	**114**	**235**	**788**	**674**	**1,811**
Net book value at 30 September 2010	100	235	909	625	1,869
Net book value at 30 September 2009	108	235	1,025	606	1,974

As from the date of transition to IFRS, goodwill is no longer amortised but is now subject to an annual impairment test.

Impairment of goodwill

The goodwill of £235,000 relates to the operations of Intasolve Limited, which were merged into the business of Zytronic Displays Limited on 1 September 2002.

Zytronic Displays Limited operates in one continuing area of activity, which is the lowest level at which goodwill is monitored for internal purposes. That activity has demonstrated underlying growth in sales revenues, gross profit margins, profitability before tax and cash generation over recent years.

The recoverable amount of goodwill has been determined based on a value in use calculation for the cash-generating unit, using cashflow projections based on financial budgets and forecasts approved by senior management covering a three-year period. Growth has been extrapolated forward from the end of the forecasts, using a growth rate of 3% which reflects the Directors' view of the long term growth rate in the business.

The cashflows for all cash-generating units have been discounted using a discount rate of 10%, based on the Group's weighted average cost of capital.

The calculation of value in use is most sensitive to the forecast operating cashflows, the discount rate and the growth rate used to extrapolate cashflows beyond the budget period. The operating cashflows are based on assumptions of revenue, cost of sales and general overheads. These assumptions are influenced by several factors both internally and externally.

The Directors consider the assumptions used to be consistent with the historical performance and to be realistically achievable in light of economic and industry measures and forecasts. It is believed that any reasonably possible movement on assumptions will not lead to an impairment and we have therefore not presented any sensitivity analysis.

Impairment of licences

Licences include intangible assets acquired through business combinations. These licences have been acquired for a period of 10 and 17 years and are subject to annual impairment.

Impairment of software and development expenditure

Software and development expenditure are subject to annual impairment over a period of four years and four to ten years respectively.

10. Property, plant and equipment

The amounts carried in the balance sheet comprise:

	Land £'000	Freehold property £'000	Long leasehold property £'000	Plant and machinery £'000	Total £'000
Cost					
At 30 September 2009	207	2,960	2,149	9,033	14,349
Additions	—	108	6	552	666
Disposals	—	—	—	(1,727)	(1,727)
At 30 September 2010	207	3,068	2,155	7,858	13,288
Additions	—	2	3	534	539
Disposals	—	—	—	(148)	(148)
At 30 September 2011	**207**	**3,070**	**2,158**	**8,244**	**13,679**
Depreciation and impairment					
At 30 September 2009	—	96	67	5,811	5,974
Provided during the year	—	59	54	541	654
Disposals	—	—	—	(1,727)	(1,727)
At 30 September 2010	—	155	121	4,625	4,901
Impairment	—	—	—	131	131
Provided during the year	—	61	55	555	671
Disposals	—	—	—	(137)	(137)
At 30 September 2011	**—**	**216**	**176**	**5,174**	**5,566**
Net book value at 30 September 2011	**207**	**2,854**	**1,982**	**3,070**	**8,113**
Net book value at 30 September 2010	207	2,913	2,034	3,233	8,387
Net book value at 30 September 2009	207	2,864	2,082	3,222	8,375

Included in the amounts for plant and machinery are the following amounts relating to assets acquired under HP agreements:

The impairment charge of £131,000 relates to assets written down to Nil net book value as these assets have been scrapped or are no longer required within production.

	30 September 2011 £'000	30 September 2010 £'000
Cost	**—**	2,241
Accumulated depreciation	**—**	853

11. Inventories

	30 September 2011 £'000	30 September 2010 £'000
Raw materials and consumables	**1,847**	1,674
Work in progress	**472**	639
Finished goods	**435**	275
	2,754	2,588

The difference between purchase price or production cost of stocks and their replacement cost is not material.

The amount of write-down of inventories recognised as an expense is £58,000 (2010: £118,000), which is recognised in cost of sales.

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

12. Trade and other receivables

(a) Current assets

	30 September 2011 £'000	30 September 2010 £'000
Trade receivables	**3,752**	3,200
VAT recoverable	**129**	107
Prepayments	**140**	159
	4,021	3,466

Trade receivables are denominated in the following currencies:

	30 September 2011 £'000	30 September 2010 £'000
Sterling	**1,011**	1,628
US Dollar	**1,521**	1,242
Euro	**1,220**	330
	3,752	3,200

Out of the carrying amount of trade receivables of £3.8m (2010: £3.2m), £2.0m (2010: £1.7m) is the amount of debts owed by three major customers. Regular reviews are undertaken on these major customers so as to ascertain that there are no going concern issues with them.

Trade receivables are non-interest bearing and are generally on 30 to 60 days' terms. They are shown net of a provision for impairment.

As at 30 September 2011, trade receivables at a nominal value of £37,000 (2010: £52,000) were impaired due to poor payment history. Movements in the provision for impairment of trade receivables were as follows:

	£'000
At 30 September 2009	10
Charge for the year	52
Utilised	(10)
At 30 September 2010	52
Charge for the year	24
Utilised	(39)
At 30 September 2011	**37**

At 30 September, the ageing analysis of trade receivables overdue but not impaired is as follows:

		Past due but not impaired		
	Neither past due nor impaired	0–3 months £'000	>3 months £'000	Total £'000
2011	**2,871**	**890**	**(9)**	**3,752**
2010	2,186	1,036	(22)	3,200

The good credit quality of trade receivables at 30 September 2011 is reflected in the improved ageing of the year-end receivables, in comparison to the prior year, and the reduction of the impairment provision. Credit limits are set for each customer, using Dun & Bradstreet credit reports as appropriate, or pro-forma invoices are raised, or cash up front is received for a new customer where a credit limit is not easily established. Slow payers are chased vigorously, including making use of solicitors in the collection process. The credit quality of trade receivables that are neither past due or impaired is assessed by reference to external credit ratings where available, otherwise historical information relating to counterparty default rates is used.

(b) Non-current assets

	30 September 2011 £'000	30 September 2010 £'000
Royalty prepayments	**296**	198

13. Cash and short term deposits

	30 September 2011 £'000	30 September 2010 £'000
Cash at bank and in hand	**1,302**	1,505
Short term deposits	**3,211**	—
	4,513	1,505

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term deposits are made overnight, depending on the immediate cash requirements of the Group, and earn interest at base rate.

At 30 September 2011, the Group had available £3.1m (2010: £2.7m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. £3.1m (2010: £0.7m) of these facilities fall for review within one year.

For the purpose of the consolidated cashflow statement, cash and cash equivalents comprise the following:

	30 September 2011 £'000	30 September 2010 £'000
Cash at bank and in hand	**1,302**	1,505
Short term deposits	**3,211**	—
Bank overdraft	**(1,935)**	(291)
	2,578	1,214

The fair value of cash and cash equivalents is £2.6m (2010: £1.2m).

14. Trade and other payables

	30 September 2011 £'000	30 September 2010 £'000
Trade payables	**1,647**	1,449
Other taxes and social security costs	**131**	133
	1,778	1,582
Accruals	**1,118**	600
	2,896	2,182

Terms and conditions of the above financial liabilities:

> trade payables are non-interest bearing and are normally settled on 30-day terms.

15. Financial liabilities – current

	30 September 2011 £'000	30 September 2010 £'000
Bank loan (note 18(a))	**—**	6
Bank loans (notes 18(b) and 18(c))	**331**	327
Obligations under HP agreements (notes 18(d) and 19(a))	**—**	45
Bank overdrafts	**1,935**	291
	2,266	669

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

16. Government grants

	30 September 2011 £'000	30 September 2010 £'000
At 1 October	**481**	43
Received during the year	**—**	540
Released to the income statement	**(192)**	(102)
At 30 September	**289**	481
Current	**192**	192
Non-current	**97**	289
	289	481

Government grants have been received following the purchase of certain items of property, plant and equipment and the protection of jobs in the Company.

There are no unfulfilled conditions or contingencies attached to these grants.

17. Financial liabilities – non-current

	30 September 2011 £'000	30 September 2010 £'000
Bank loans (note 18(b) and 18(c))	**1,722**	2,045
	1,722	2,045

18. Bank loans

(a) Chattel mortgage

On 28 September 2004, Zytronic Displays Limited entered into a term loan with Yorkshire Bank which was secured by a Chattel mortgage over certain items of plant and machinery. The original loan of £250,000 was paid off in November 2007. On 23 November 2007 an additional amount of £100,000 was borrowed under the terms of this same Chattel mortgage, repayable by 36 equal monthly instalments. This loan was paid off in November 2010.

(b) Property mortgage

On 13 January 2006, Zytronic plc drew down funds under a ten-year mortgage with Lloyds TSB Bank plc under which it borrowed £750,000, repayable by monthly instalments. The loan is secured against its freehold interest in Britannia Court, the freehold factory premises which it acquired in January 2006. Interest is payable at 1.25% above that bank's base rate.

(c) Property mortgage

On 4 June 2009, Zytronic plc borrowed £2.25m under a ten-year mortgage with Alliance & Leicester Commercial Bank, repayable by monthly instalments. The loan is secured against its freehold interest in Haworth Court and its interest in a 999-year long leasehold on its third factory. Previous to the acquisitions of these interests, the Group occupied these premises on leases expiring in 2019. Interest is payable at 2.5% above three-month LIBOR. The balance is shown net of issue costs which are being amortised over the life of the loan.

(d) HP agreements

As at 30 September 2011, there were no outstanding HP agreements, having been fully paid off in February 2011.

19. Obligations under HP agreements and leases

(a) Obligations under HP agreements

	30 September 2011 £'000	30 September 2010 £'000
Minimum HP payments:		
– not later than one year	—	45
	—	45

(b) Obligations under operating leases

Minimum lease payments under non-cancellable operating leases are as follows:

Group as lessee	30 September 2011 £'000	30 September 2010 £'000
Operating leases which expire:		
– not later than one year	23	30
– later than one year and not later than five years	21	40
– later than five years	6	6
	50	76

20. Deferred taxation liability/(asset)

The deferred tax included in the balance sheet is as follows:

	30 September 2011 £'000	30 September 2010 £'000
Deferred tax liability		
Accelerated capital allowances	614	711
R&D tax credit	152	138
Other	11	20
	777	869
Deferred tax asset		
Share-based payment	(51)	(40)
Pension asset	—	(2)
	(51)	(42)
Disclosed on the balance sheet	726	827

The deferred tax included in the Group income statement is as follows:

	30 September 2011 £'000	30 September 2010 £'000
Deferred tax in the income statement		
Accelerated capital allowances	(51)	15
R&D tax credits	25	25
Share-based payment	(6)	(9)
Other	(6)	1
	(38)	32
Effect of change in tax rates	(56)	(20)
Deferred income tax expense	(94)	12

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For the year ended 30 September 2011

21. Financial risk management policy and financial instruments

The Group's principal financial instruments comprise two secured bank loans, an overdraft facility and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial instruments, such as trade receivables and trade payables that arise directly from its operations.

The main risks associated with the Group's financial assets and liabilities are set out below:

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Group provides goods on deferred terms.

Group policies are aimed at minimising such losses and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and/or satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Group's exposure to bad debts is not significant. Goods may be sold on a cash-with-order basis to mitigate credit risk.

Management's assessment of the maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Liquidity risk

The Company aims to mitigate liquidity risk by managing cash generated by its operations. Capital expenditure is approved at Group level.

Flexibility is maintained by retaining surplus cash in readily accessible bank accounts.

The Group has an unsecured Net overdraft facility of £1.0m arranged with its principal banker, Lloyds TSB Bank plc. This facility extends until 30 April 2012 and is to provide funding for working capital. On 28 April 2009, the Group renegotiated its other facility with Lloyds TSB Bank plc, being a revolving credit facility for £2.0m, which extends until 30 June 2012. This facility is to provide additional working capital and funding for further capital expenditure, should it be required.

In January 2006, the Company acquired a freehold property and in May and June 2009 the Company acquired the freehold of, and a 999-year lease on, its existing two leased factories. To manage liquidity risk, the Company part-funded these acquisitions using two secured property loans, each repayable over ten years.

The Group entered into a USD forward extra contract in September 2011 to protect itself against adverse movements in the exchange rate. A series of 12, one monthly contracts may arise depending on the movement of the USD rate within each month. A protection rate of $1.6000 offers the worst case scenario for exchange with the trigger rate being granted at $1.4975. Movements between these two rates offer the best possible outcome.

The following table demonstrates the possible outcomes based on the worst case scenario rate of $1.6000.

Year ended 30 September 2011

Derivative financial liabilities	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Gross settled						
Foreign exchange forward contracts – outflow	—	(1,500)	(4,500)	—	—	(6,000)
Foreign exchange forward contracts – inflow	—	1,500	4,500	—	—	6,000
Total	—	—	—	—	—	—

Year ended 30 September 2010

Derivative financial liabilities	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Gross settled						
Foreign exchange forward contracts – outflow	—	—	—	—	—	—
Foreign exchange forward contracts – inflow	—	—	—	—	—	—
Total	—	—	—	—	—	—

The maturity profile in the above tables reflects only one side of the Group's liquidity position.

21. Financial risk management policy and financial instruments continued

Foreign exchange risk

The Group's policy is that no trading in financial instruments should be undertaken. Spot contracts and forward currency contracts may be used to sell surplus US Dollars and Euros, generated from sales less purchases in those currencies. However, the Group uses natural hedging as the main basis of minimising its exposure to these currencies.

Foreign currency risk is the risk that the fair value of future cashflows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense are denominated in a different currency from the Group's functional currency).

The following table demonstrates the sensitivity to a reasonably possible change in the US Dollar and Euro exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities and fair value movements on forward currency contracts).

	Change in US Dollar rate	Effect on profit before tax £'000	Change in Euro rate	Effect on profit before tax £'000
2011				
Sterling	**+ 5%**	**(1)**	**+ 5%**	**(1)**
	– 5%	**2**	**– 5%**	**1**
2010				
Sterling	+ 5%	(19)	+ 5%	(24)
	– 5%	20	– 5%	27

Interest rate risk

The Group has not sought to tie itself into fixed rate debt but has instead accepted a degree of interest rate risk from having only floating rate debt. This is because the Group has positive net cash balances, a relatively low level of borrowings and estimates that an increase of 1% in interest rates would not have a material effect on the Group's pre-tax profits.

The main risks arising from the Group's financial instruments are as follows:

> foreign currency risk – the magnitude of this risk that has arisen over the period is detailed below; and

> interest rate risk on floating rate financial liabilities to the extent not covered by interest rate benefit on floating rate financial assets – details of floating rate financial liabilities and assets are below.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/ decrease in basis points	Effect on profit before tax £'000
2011		
Sterling	**+ 100**	**(19)**
	– 100	**19**
2010		
Sterling	+ 100	(23)
	– 100	23

The floating rate financial assets comprise cash. The benchmarks for floating rates on both liabilities and assets is LIBOR and Bank of England base rate.

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

21. Financial risk management policy and financial instruments continued

Currency exposures

The table below shows the Group's currency exposures; in other words, those transactional exposures that give rise to the net currency gains and losses recognised in the income statement. Such exposures comprise the monetary assets and monetary liabilities of the Group that are not denominated in the operating currency of the Group.

These currency exposures were:

	Net foreign currency monetary asset		
	US Dollar £'000	Euro £'000	Total £'000
30 September 2011	**43**	**23**	**66**
30 September 2010	613	608	1,221

The year-end net foreign currency monetary assets comprise cash and trade receivable balances less trade payable balances. These are the inherent constituents of the natural hedging policy whereby foreign currency sales are turned into cash for the settlement of purchases of goods denominated in those foreign currencies. Cash at a month end is held to settle creditors' payments due in the next two months and to meet future anticipated capital expenditure in those currencies.

Maturity profile of financial liabilities

Year ended 30 September 2011

	On demand £'000	**<3 months £'000**	**3–12 months £'000**	**1–5 years £'000**	**>5 years £'000**	**Total £'000**
Interest-bearing loans and borrowings	**1,935**	**74**	**293**	**1,809**	**66**	**4,177**
Trade and other payables	**2,470**	**426**	**—**	**—**	**—**	**2,896**
Total	**4,405**	**500**	**293**	**1,809**	**66**	**7,073**

Interest-bearing loans and borrowings comprise principal repayments due of £4.0m and contractual interest payments of £188,000. Interest is calculated based on interest rates prevailing at the balance sheet date.

Year ended 30 September 2010

	On demand £'000	<3 months £'000	3–12 months £'000	1–5 years £'000	>5 years £'000	Total £'000
Interest-bearing loans and borrowings	291	96	316	1,897	369	2,969
Trade and other payables	1,618	564	—	—	—	2,182
Total	1,909	660	316	1,897	369	5,151

Fair values of financial assets and financial liabilities

The fair value of all financial assets and liabilities is not significantly different to their carrying amount.

Capital management

The Group's policies on capital management are included in the Directors' report on page 16.

22. Share capital and share-based payments

(a) Share capital

	2011 Number Thousands	2010 Number Thousands	2011 £'000	2010 £'000
Authorised				
Ordinary shares of 1p each	**25,000**	25,000	**250**	250
Allotted, called up and fully paid				
Ordinary shares 1p each	**14,734**	14,710	**147**	147

(b) Share premium

	£'000
At 1 October 2010	6,550
Increase for cash on exercise of share options	38
At 30 September 2011	**6,588**

(c) Share-based payments

Senior Executive Plans and EMI Scheme

Share options are granted to senior executives at the discretion of the remuneration committee. The exercise price of the options is based on the market price of the shares at the date of grant. The options vest three years from the date of grant. The contractual life of each option granted is ten years. There are no cash settlement alternatives.

All Employee Share-option Plan, the Sharesave Scheme

Periodically the Board of Directors will agree to the setting up of a new Sharesave Scheme for all employees under the SAYE regulations. All employees are entitled to apply for a grant of options once they have been in service for three months. The options will vest if the employee remains in service for a period of three or five years from the date of grant. The exercise price of the options is equal to the market price of the shares less a discount decided by the Board of Directors on the date of grant. The contractual life of the options is three or five years with a six-month exercise period.

During the year the Group had three share option schemes: an Unapproved Executive Option Scheme, an Enterprise Management Incentive ("EMI") Scheme and a Sharesave Scheme. Under these schemes, options to subscribe for the Company's shares have been granted as follows:

	30 September 2010 Number	Granted during year Number	Exercised during year Number	Lapsed during year Number	30 September 2011 Number	Exercise dates	Option price
Unapproved Executive Scheme	12,700	—	—	—	**12,700**	28 February 2011 to 27 February 2018	216.5p
	—	30,000	—	—	**30,000**	29 March 2014 to 28 March 2021	172.8p
Sharesave Scheme (2009) – 3-year term	48,511	—	6,980	41,531	**—**	1 April 2011 to 30 September 2011	220.0p
– 5-year term	19,546	—	—	—	**19,546**	1 April 2013 to 30 September 2013	220.0p
EMI Scheme	100,000	—	—	—	**100,000**	16 March 2006 to 15 March 2014	70.0p
	91,408	—	16,058	—	**75,350**	18 January 2008 to 17 January 2015	145.5p
	82,250	—	—	42,250	**40,000**	11 January 2009 to 10 January 2016	274.5p
	87,800	—	—	2,500	**85,300**	28 February 2011 to 27 February 2018	216.5p
	36,500	—	—	—	**36,500**	19 February 2012 to 18 February 2019	106.0p
	82,500	—	—	—	**82,500**	15 July 2013 to 15 July 2020	177.5p
	—	77,250	—	—	**77,250**(1)	6 October 2013 to 5 October 2016	176.0p
	—	64,850	—	—	**64,850**	29 March 2014 to 28 March 2021	172.8p
	—	46,000	—	—	**46,000**	29 March 2014 to 28 March 2021	216.0p

(1) Of the 77,250 shares issued on 5 October 2010, 40,000 shares are "parallel" shares issued to recipients of similar sized grants in 2006. Each individual is allowed to exercise the appropriate number of shares under either the 2006 grant or the 2010 grant (hence the term "parallel") but not under both. The exercise of one grant automatically terminates the other grant.

Performance conditions have not been attached to the share options awarded under the EMI Scheme.

Notes to the consolidated financial statements continued

For the year ended 30 September 2011

22. Share capital and share-based payments continued

(c) Share-based payments continued

Income statement expense for year ended 30 September 2011

The expense recognised for share-based payments in respect of employee services received during the year to 30 September 2011 is a credit of £38,000 (2010: charge of £42,000) to correct the cumulative position.

The following table illustrates the number and weighted average exercise prices ("WAEP") of, and movements in, share options during the year:

	2011 Number	2011 WAEP Pence	2010 Number	2010 WAEP Pence
Outstanding at 30 September*	**761,215*** **	**155.2**	727,598	151.2
Granted during the year	**218,100**	**120.7**	82,500	177.5
Lapsed during the year	**(86,281)**	**128.1**	(12,520)	220.0
Exercised during the year	**(23,038)**	**168.1**	(36,363)	110.0**
Outstanding at 30 September	**869,996*** **	**167.6**	761,215***	155.2
Exercisable at 30 September	**501,604**	**166.8**	273,658	156.7

* Included within this balance are options over 100,000 (2010: 100,000) shares that have not been recognised in accordance with IFRS 2 as the options had vested before 1 October 2006. These options have not been subsequently modified and therefore do not need to be accounted for in accordance with IFRS 2.

** The weighted average share price at the date of exercise for the options exercised is 110.0p.

*** Included within this balance are 200,000 shares belonging to the Director's share incentive scheme.

For the share options outstanding as at 30 September 2011, the weighted average remaining contractual life is five years (2010: five years).

There were four grants of options during the year. The weighted average fair value of options granted during the year was 64.4p (2010: 41.7p). The range of exercise prices for options outstanding at the end of the year was 70.0p to 274.5p (2010: 70.0p to 274.5p).

The fair value of equity-settled share options granted is estimated as at the date of grant using a model designed by the Quoted Company Alliance (based on a Black-Scholes-Merton model), taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the years ended 30 September 2011 and 30 September 2010:

	2011	2010
Dividend yield	**3.3%**	3.4%
Expected share price volatility	**35.0%**	35.0%
Risk-free interest rate	**4.8%**	4.0%
Expected life of option (years)	**3.0 to 5.0**	3.0 to 5.0

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other features of options grant were incorporated into the measurement of fair value.

(d) Director's share incentive scheme

Share incentive scheme for Mark Cambridge, Chief Executive

The remuneration committee agreed an incentive award scheme for Mark Cambridge, Chief Executive, to offer him up to 200,000 shares at a price of 25.0p per share to vest based on specified performance criteria.

These are measured by an EPS calculated on the audited pre-tax profit and a standard 28% tax charge. The EPS criteria are shown below:

	Performance criteria			
	Lower limit		Upper limit	
	EPS Pence	Shares to vest	EPS Pence	Shares to vest
Year to 30 September 2009 (year 1)	13.5	80,000	15.0	100,000
Year to 30 September 2010 (year 2)	18.3	60,000	22.0	80,000
Year to 30 September 2011 (year 3)	24.5	60,000	24.5	20,000

22. Share capital and share-based payments continued

(d) Director's share incentive scheme continued

Share incentive scheme for Mark Cambridge, Chief Executive continued

Vesting is:

> the entitlement to buy, which doesn't disappear once earned;

> pro rata between the upper and lower limits;

> timed on signature of audited accounts with a clean audit report; and

> cumulative, e.g. 200,000 shares can vest in year 3 if the upper limit is reached, even if the lower limits have not been achieved in the previous years.

If the 24.5p EPS criteria is not achieved in year 3, there will still be an opportunity for shares to vest in year 4 (to 30 September 2012) or year 5 (to 30 September 2013) on the achievement of 24.5p EPS on the basis that, on achievement, the maximum total entitlement reduces to 125,000 shares or 50,000 shares respectively, or the number of shares already vested if that is greater.

Vesting will also take place in the event of a successful takeover and will be based on the takeover price, with full vesting at a share price of 500p and pro rata vesting down to a price of 300p as follows:

> 1,000 shares for each 1p above 300p up to 500p until 30 September 2011, reduced for any shares which have already vested;

> 625 shares for each 1p above 300p up to 500p between 1 October 2011 and 30 September 2012, reduced for any shares which have already vested; and

> 250 shares for each 1p above 300p up to 500p between 1 October 2012 and 30 September 2013, reduced for any shares which have already vested.

23. Capital commitments

Amounts contracted for at 30 September 2011 but not provided in the financial statements amounted to £267,000 (2010: £428,000) for the Group.

24. Pension scheme commitments

Contributions for the year ended 30 September 2011 amounted to £56,000 (2010: £54,000) and the outstanding contributions at the balance sheet date were £5,000 (2010: £6,000). The Group is a member of a group personal pension scheme which is a defined contribution scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme.

25. Related party transactions

There are no related party transactions required to be disclosed in the financial statements.

The key management personnel are considered to be the Directors of the Group. The following table highlights the remuneration payable to the Directors:

	2011 £'000	2010 £'000
Salaries/fees	**393**	394
Bonuses	**46**	15
Pension contributions	**6**	6
Share-based payments	**2**	2
	447	417

26. Guarantees

Zytronic plc has given a guarantee to Lloyds TSB Bank plc in connection with the overdraft facility and the revolving credit facility detailed in note 21.

Five-year summaries

Consolidated income statement

For the five years ended 30 September 2007 to 2011

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Group revenue	**20,488**	18,483	15,921	14,717	11,437
Cost of sales	**13,574**	12,589	10,514	9,978	7,971
Gross profit	**6,914**	5,894	5,407	4,739	3,466
Distribution costs	**239**	231	183	217	197
Administration expenses	**3,194**	2,738	2,850	2,675	2,556
Group trading profit	**3,481**	2,925	2,374	1,847	713
Other operating income	**187**	112	20	27	36
Group operating profit from continuing activities	**3,668**	3,037	2,394	1,874	749
Finance costs	**112**	126	98	146	73
Finance revenue	**1**	13	4	12	7
Profit from continuing operations	**3,557**	2,924	2,300	1,740	683
Tax expense	**865**	736	593	677	149
Profit for the period from continuing operations	**2,692**	2,188	1,707	1,063	534
Earnings per share					
Basic	**18.3p**	14.9p	11.6p	7.3p	3.6p
Diluted	**18.1p**	14.8p	11.5p	7.2p	3.6p
Dividends per share	**7.1p**	5.8p	4.2p	3.0p	3.0p

The results for all the above years derive from continuing operations.

Dividends are shown in the accounts in the year in which they are paid.

Consolidated balance sheet

At 30 September 2007 to 2011

	2011 £'000	2010 £'000	2009 £'000	2008 £'000	2007 £'000
Assets					
Non-current assets					
Intangible assets	**1,811**	1,869	1,974	2,058	2,122
Property, plant and equipment	**8,113**	8,387	8,375	5,315	5,208
Trade and other receivables	**296**	198	210	210	194
	10,220	10,454	10,559	7,583	7,524
Current assets					
Inventories	**2,754**	2,588	2,503	2,496	1,828
Trade and other receivables	**4,021**	3,466	3,110	3,039	2,767
Cash and short term deposits	**4,513**	1,505	739	1,260	317
	11,288	7,559	6,352	6,795	4,912
Total assets	**21,508**	18,013	16,911	14,378	12,436
Equity and liabilities					
Current liabilities					
Trade and other payables	**1,778**	1,582	1,306	1,480	1,376
Financial liabilities	**2,266**	669	1,442	1,182	621
Accruals	**1,118**	600	574	533	399
Taxation liabilities	**502**	357	300	341	—
Government grants	**192**	192	—	—	—
	5,856	3,400	3,622	3,536	2,396
Non-current liabilities					
Financial liabilities	**1,722**	2,045	2,428	1,088	1,340
Deferred tax liabilities (net)	**726**	827	820	817	479
Government grants	**97**	289	43	55	—
	2,545	3,161	3,291	1,960	1,819
Total liabilities	**8,401**	6,561	6,913	5,496	4,215
Net assets	**13,107**	11,452	9,998	8,882	8,221
Capital and reserves					
Equity share capital	**147**	147	147	147	147
Share premium	**6,588**	6,550	6,479	6,479	6,473
Revenue reserve	**6,372**	4,755	3,372	2,256	1,601
Total equity	**13,107**	11,452	9,998	8,882	8,221

Statement of Directors' responsibilities

In relation to the parent company financial statements

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). These financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors confirm that the financial statements comply with the above requirements.

Parent company auditors' report

To the members of Zytronic plc

Independent auditors' report to the members of Zytronic plc

We have audited the Parent Company financial statements of Zytronic plc for the year ended 30 September 2011 which comprise the balance sheet and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

As explained more fully in the Directors' responsibilities statement set out on page 54, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Zytronic plc annual report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company financial statements:

> give a true and fair view of the state of the Company's affairs as at 30 September 2011;

> have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and

> have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

> the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and

> the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

> adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or

> the Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or

> certain disclosures of Directors' remuneration specified by law are not made; or

> we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Zytronic plc for the year ended 30 September 2011.

Annie Graham (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle-upon-Tyne
14 December 2011

Parent company balance sheet

At 30 September 2011

	Notes	2011 £'000	Restated 2010 £'000
Fixed assets			
Tangible assets	3	**4,926**	5,022
Investments	4	**9,625**	9,650
		14,551	14,672
Current assets			
Debtors:			
– amounts falling due within one year	5	**1,323**	822
– amounts falling due after one year	5	**2,000**	2,000
Cash at bank and in hand		**1,183**	630
		4,506	3,452
Creditors: amounts falling due within one year	6	**498**	486
Net current assets		**4,008**	2,966
Total assets less current liabilities		**18,559**	17,638
Creditors: amounts falling due after more than one year	7	**1,722**	2,045
Provisions for liabilities and charges			
Deferred tax	9	**119**	76
		16,718	15,517
Capital and reserves			
Called up share capital	10	**147**	147
Share premium	11	**6,588**	6,550
Profit and loss account	11	**9,983**	8,820
Shareholders' funds		**16,718**	15,517

These financial statements have been approved by the Board of Directors on 14 December 2011 and signed on its behalf by:

Mark Cambridge, B.Sc
Chief Executive
14 December 2011

Denis Mullan, B.Sc, FCA
Finance Director

Notes to the parent company financial statements

For the year ended 30 September 2011

1. Accounting policies

(a) Basis of preparation

The financial statements of Zytronic plc were approved for issue by the Board of Directors on 14 December 2011. The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

A profit and loss account is not presented for the Company as permitted by Section 408 of the Companies Act 2006 and the Company has taken the exemptions under FRS 1 not to present a cashflow statement.

The Company has taken advantage of the exemption available to parent companies under FRS 29 Financial Instruments: Disclosures so as not to provide the information otherwise required by the standard, as the Group's consolidated financial statements, in which the Company is included, provide equivalent disclosures under IFRS 7 Financial Instruments and Disclosure.

(b) Changes in accounting policy – FRS 20 Share-based payment

In light of the amendment to FRS 20 "Group cash settled share-based payment arrangements" effective for the first time this year, the Company has amended their accounting policy for share-based payment schemes settled in the Company's equity where services are received by subsidiary entities. To reflect this change, the Company has recorded an increase in investments in subsidiary companies of £161,000 as at 1 October 2010 with a corresponding credit to equity. An increase of £41,000 and a credit of £25,000 have been recorded in the periods to 30 September 2010 and 2011 respectively, with a corresponding entry to equity.

(c) Share-based payments

Equity-settled transactions

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award. Fair value is determined using an appropriate pricing model. In valuing equity-settled transactions, account is not taken of any service performance conditions (vesting conditions), other than performance conditions linked to the price of the shares of the Company (market conditions). Any other conditions which are required to be met in order for an employee to become fully entitled to an award are considered to be non-vesting conditions. Like market performance conditions, non-vesting conditions are taken into account in determining the grant date fair value.

An expense is not recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market vesting condition, which are treated as vesting irrespective of whether or not the market vesting condition or non-vesting condition is satisfied, provided that all other non-market vesting conditions are satisfied.

At each balance sheet date before vesting, the cumulative expense is calculated, representing the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions and the number of equity instruments that will ultimately vest, or in the case of an instrument subject to a market vesting condition or a non-vesting condition, be treated as vesting as described above. The movement in cumulative expense since the previous balance sheet date is recognised in the income statement, with a corresponding entry in equity.

Where the terms of an equity-settled award are modified or a new award is designated as replacing a cancelled or settled award, the cost based on the original award terms continues to be recognised over the original vesting period. In addition, an expense is recognised over the remainder of the new vesting period for the incremental fair value of any modification, based on the difference between the fair value of the original award and the fair value of the modified award, both as measured on the date of the modification. A reduction is not recognised if this difference is negative.

Where an equity-settled award is cancelled (including when a non-vesting condition within the control of the entity or employee is not met), it is treated as if it had vested on the date of cancellation, and any cost not yet recognised in the profit and loss account for the award is expensed immediately. Any compensation paid up to the fair value of the award at the cancellation or settlement date is deducted from equity, with any excess over fair value being treated as an expense in the profit and loss account.

The Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 costs in the subsidiary undertakings.

Notes to the parent company financial statements continued

For the year ended 30 September 2011

1. Accounting policies continued

(d) Tangible fixed assets

Property is stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the asset capable of operating as intended. Borrowing costs attributable to assets under construction are recognised as an expense when incurred.

Depreciation is provided on all tangible fixed assets, at rates calculated to write off the costs, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Freehold land – Nil

Freehold property – 50 years

Long leasehold property – 50 years

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. The expected useful lives of assets are reviewed annually.

(e) Investments

Fixed asset investments in subsidiaries are shown at cost less provision for impairment.

(f) Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax in the future have occurred at the balance sheet date, with the exception of deferred tax assets which are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

(g) Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at net proceeds, being fair value of the consideration received net of issue costs associated with the borrowings. Finance costs (including issue costs) are taken to the profit and loss account over the term of the debt at a constant rate on the balance sheet carrying amount. The carrying amount is increased by the finance charges amortised and reduced by payments made in respect of the accounting period.

2. Auditors' remuneration

Auditors' remuneration for the year ended 30 September 2011 was £13,000 (2010: £15,000).

3. Tangible fixed assets

	Land £'000	Freehold property £'000	Long leasehold property £'000	Total £'000
Cost				
At 30 September 2010	207	3,068	1,955	5,230
Additions	—	2	3	5
At 30 September 2011	**207**	**3,070**	**1,958**	**5,235**
Depreciation				
At 30 September 2010	—	156	52	208
Provided during the year	—	61	40	101
At 30 September 2011	**—**	**217**	**92**	**309**
Net book value at 30 September 2011	**207**	**2,853**	**1,866**	**4,926**
Net book value at 30 September 2010	207	2,912	1,903	5,022

4. Investments

Investments in subsidiary companies

	2011 £'000	Restated 2010 £'000
Shares in subsidiary companies		
At beginning of year	**9,650**	9,609
Share options granted to subsidiary employees	**(25)**	41
At end of year	**9,625**	9,650

Details of the investments in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of company	Holding	Proportion of voting rights and shares held	Nature of business
Zytronic Displays Limited	Ordinary shares	100%	Manufacture of transparent composites, including touch sensors
Intasolve Limited	Ordinary shares	100%	Dormant
Zytronic Glass Products Limited	Ordinary shares	100%	Dormant

The trading subsidiary is incorporated in England.

5. Debtors

	2011 £'000	2010 £'000
Trade debtors	**2**	2
Amounts owed by Group undertakings	**3,304**	2,803
Prepayments and accrued income	**17**	17
	3,323	2,822

Amounts falling due after more than one year included above are:

	2011 £'000	2010 £'000
Amounts owed by Group undertakings	**2,000**	2,000

6. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Bank loans (note 8)	**331**	327
Trade creditors	**7**	20
Other creditors and accruals	**79**	53
Other amounts owed to subsidiary undertakings	**81**	81
Corporation tax	**—**	5
	498	486

7. Creditors: amounts falling due after more than one year

	2011 £'000	2010 £'000
Bank loans (note 8)	**1,722**	2,045

Notes to the parent company financial statements continued

For the year ended 30 September 2011

8. Bank loans

On 13 January 2006, Zytronic plc drew down funds under a ten-year mortgage with Lloyds TSB Bank plc under which it borrowed £750,000, repayable by monthly instalments. The loan is secured against its freehold interest in Britannia Court, the freehold factory premises which it acquired in January 2006. Interest is payable at 1.25% above that bank's base rate.

On 4 June 2009, Zytronic plc borrowed £2.25m under a ten-year mortgage with Alliance & Leicester Commercial Bank, repayable by monthly instalments. The loan is secured against its freehold interest in Haworth Court and its interest in a 999-year long leasehold on its main factory. Previous to the acquisitions of these interests, the Group occupied these premises on leases expiring in 2019. Interest is payable at 2.5% above three-month LIBOR. The balance is shown net of issue costs which are being amortised over the life of the loan.

9. Deferred taxation liability

The deferred tax included in the balance sheet is as follows:

	2011 £'000	2010 £'000
Accelerated capital allowances	119	74
Other timing differences	—	2
	119	76
At 1 October	76	65
Charged in the profit and loss account	46	11
Other	(3)	—
At 30 September	119	76

Following announcements in the 2011 Budget on 23 March 2011, it was proposed that the full rate of corporation tax be reduced for four years from 1 April 2011, ultimately bringing the corporation tax rate down to 23%. A reduction from 28% to 27% was substantively enacted on 20 July 2010 and was intended to take effect from 1 April 2011; however, the 2011 Budget announced instead that this would be reduced to 26% and this was enacted on 29 March 2011. A further reduction to 25%, taking effect from 1 April 2012, was also enacted on 19 July 2011. The enacted reduction at the balance sheet date to 25% has been applied to the deferred tax assets and liabilities arising at the balance sheet date.

10. Share capital and share-based payments

(a) Share capital

	2011 Number Thousands	2010 Number Thousands	2011 £'000	2010 £'000
Authorised				
Ordinary shares of 1p each	25,000	25,000	250	250
Allotted, called up and fully paid				
Ordinary shares 1p each	14,734	14,710	147	147

Note 22(c) in the Group financial statements sets out the details of the share option schemes of the Group and the numbers of shares in the Parent Company which are contingently exercisable under them.

(b) Share-based payments

Note 22(c) in the Group financial statements identifies the basis of the Senior Executive Plans and the Sharesave Scheme. It also contains a table which illustrates the number and weighted average exercise prices of, and movements in, share options during the year.

(c) Director's share incentive scheme

Note 22(d) in the Group financial statements sets out the details of the Share Incentive Award Scheme for Mark Cambridge, Chief Executive, in shares of the Parent Company.

11. Reconciliation of movements in shareholders' funds

	Called up share capital £'000	Share premium £'000	Profit and loss account £'000	Total £'000
At 30 September 2009 – as previously stated	147	6,479	8,998	15,624
Prior year adjustment	—	—	161	161
At 30 September 2009 – as restated	147	6,479	9,159	15,785
Exercise of share options	—	40	—	40
Refund of VAT on flotation expenses previously disallowed	—	31	—	31
Profit on ordinary activities after taxation	—	—	471	471
Share-based payments	—	—	42	42
Dividends	—	—	(852)	(852)
At 30 September 2010	147	6,550	8,820	15,517
Exercise of share options	—	38	—	38
Profit on ordinary activities after taxation	—	—	2,245	2,245
Share-based payments	—	—	(38)	(38)
Dividends	—	—	(1,044)	(1,044)
At 30 September 2011	**147**	**6,588**	**9,983**	**16,718**

A profit of £2,245,000 (2010: £471,000), before payments of dividends of £1,044,000 (2010: £852,000), has been dealt with in the financial statements of the Company which, under the exemption contained in Section 408 of the Companies Act 2006, has not presented its own profit and loss account.

Included in the Company's opening and closing profit and loss account reserves is an amount of £8,919,000, which was a dividend received from a subsidiary company in a prior year. This is not included in Group reserves and does not form part of the Company's distributable reserves.

12. Pension scheme commitments

Contributions for the year ended 30 September 2011 amounted to £2,800 (2010: £2,700) and the outstanding contributions at the balance sheet date were £Nil (2010: £1,800).

13. Guarantees

Zytronic plc has given guarantees, regarding funding advanced to Zytronic Displays Limited by Lloyds TSB Bank plc in connection with an overdraft facility and a revolving credit facility detailed in note (a) below.

(a) Borrowing facilities

The Group has an unsecured overdraft facility of £1.0m arranged with its principal banker, Lloyds TSB Bank plc. This facility extends until 30 April 2012. This facility is to provide funding for working capital. On 28 April 2009, the Group entered into an additional facility with Lloyds TSB Bank plc, being a revolving credit facility for £2.0m, which extends until 30 June 2012. This facility is to provide additional working capital and funding for capital expenditure, should it be required.

Notice of annual general meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at Whiteley Road, Blaydon-on-Tyne, Tyne and Wear NE21 5NJ on Tuesday 21 February 2012 at 2.00pm for the following purposes:

Ordinary business

To consider and, if thought fit, to pass the following resolutions as ordinary resolutions of the Company:

1. To receive the financial statements for the year ended 30 September 2011 and the reports of the Directors and auditors thereon.
2. To pay a final dividend of 5.6p per ordinary share of 1.0p for the year ended 30 September 2011 on Friday 24 February 2012 to members on the Register at the close of business on Friday 14 February 2012.
3. To re-elect Tudor Davies as a Director.
4. To re-elect Denis Mullan as a Director.
5. To re-appoint Ernst & Young LLP as auditors and to authorise the Directors to fix their remuneration.

Special business

To consider and, if thought fit, to pass the following resolutions as special resolutions of the Company:

1. The Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of Section 551 of the Companies Act 2006 (as amended) (the "Act") to exercise all the powers of the Company to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (such shares and such rights to subscribe for or to convert any security into shares in the Company being "relevant securities") on such terms and in such manner as they shall think fit, up to a maximum aggregate nominal amount of £49,111.74 at any time (unless and to the extent previously revoked, varied or renewed by the Company in general meeting) during the period from the date hereof until the conclusion of the Company's Annual General Meeting held in 2013 provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted offered or otherwise dealt with or disposed of after the expiry of such authority and the Directors may allot any relevant securities after the expiry of such authority in pursuance of any such offer or agreement as if this authority had not expired.
2. Subject to and conditional upon the passing of special resolution 1 above, the Directors of the Company be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the authority, conferred by special resolution 1 above, as if Section 561 of the Act did not apply to any such allotment, such power to expire at the conclusion of the Company's Annual General Meeting held in 2013 provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. This power is limited to:

   2.1 the allotment of equity securities for cash in connection with a rights issue or other pre-emptive offer to holders of ordinary shares of 1.0p each in the capital of the Company where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares of 1.0p each in the capital of the Company held by them but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory; and

   2.2 the allotment (other than pursuant to 2.1 of this special resolution) of equity securities up to a maximum aggregate nominal amount of £7,366.76.

   This power applies in relation to any sale of shares which is an allotment of equity securities by virtue of Section 560(3) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by special resolution 1 above," were omitted.

Special business continued

3. That the Company be and is hereby generally and unconditionally authorised pursuant to Section 701 of the Act to make market purchases (within the meaning of Section 693(4) of the Act) of ordinary shares of 1.0p each in the capital of the Company (for the purposes of this special resolution 3 "Shares") provided that:

   3.1 the maximum number of Shares hereby authorised to be purchased shall be 1,473,352;

   3.2 the minimum price which may be paid for a Share shall be 1.0p;

   3.3 the maximum price which may be paid for a Share shall be not more than 5% above the average of the middle market quotations for Shares as derived from the London Stock Exchange daily list for securities admitted to the AIM market of the London Stock Exchange for the five business days immediately preceding the date of the purchase of the Share; and

   3.4 unless previously renewed, revoked or varied, the authority hereby conferred shall expire at the conclusion of the Company's Annual General Meeting held in 2013 save that the Company may, prior to such expiry, enter into a contract to purchase Shares which will or may be executed wholly or partly after the expiry of such authority and may purchase Shares pursuant to such contract as if such authority has not expired,

   and that all Shares so purchased in pursuance of this authority shall be held as Treasury Shares (as defined by Section 724 of the Act) for future resale for cash; transfer for the purposes of an employees' share scheme; or for cancellation.

By order of the Board

Denis Mullan, B.Sc, FCA
Company Secretary
Zytronic plc
Whiteley Road
Blaydon-on-Tyne
Tyne and Wear NE21 5NJ
14 December 2011

Notes

1. Every member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend, speak and vote (whether on a show of hands or on a poll) at the meeting on their behalf. A proxy need not be a member of the Company. A prepaid form of proxy is enclosed. Completed forms of proxy must be returned to the Company's Registrars at the address shown on the form of proxy not later than 4.00pm on Friday 17 February 2012 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll. The sending of a completed form of proxy to the Company's Registrars will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.

2. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), specifies that only those holders of ordinary shares of 1.0p each of the Company registered in the Register of Members of the Company as at:

   2.1 4.00pm on Friday 17 February 2012; or

   2.2 if this meeting is adjourned, at 4.00pm two working days prior to the adjourned meeting;

   shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1.0p each in the capital of the Company registered in their name at that time. Changes to entries on the Register of Members after 4.00pm on Friday 17 February 2012 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

3. Copies of contracts of service between Directors and the Company or any of its subsidiary undertakings will be available for inspection during normal business hours by members at the registered office of the Company on each business day from the date of this notice until the date of the Annual General Meeting, and at the place of the Annual General Meeting for at least 15 minutes prior to, and during, that meeting.

Corporate information

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